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INSURANCE BY INDUSTRY EXAMINED

BY THE SAME AUTHOR

Insurance Against Unemployment

WORKMEN'S COMPENSATION IN
GREAT BRITAIN

INSURANCE BY INDUSTRY EXAMINED

BY

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Author of "Insurance against Unemployment," "Workmen's
Compensation in Great Britain," etc.

An Enquiry into the recent working of the British
scheme of Unemployment Insurance, and an Examination
of the proposals which have been suggested to
take its place.

Printed by the
University Press, Cambridge

LONDON

P. S. KING & SON, LTD.

ORCHARD HOUSE, 2 & 4 GREAT SMITH STREET
WESTMINSTER

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1923

331.2
C66 i
195392

Printed in Great Britain by Butler & Tanner, Frome and London

3 1223 02607 9781

DEDICATED TO
HENRY R. SEAGER
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COLUMBIA UNIVERSITY, U.S.A.

PREFACE

DEEP discontent with the policy on unemployment pursued by recent Governments is largely responsible for the growing support of the proposal of "insurance by industry." Four Acts of Parliament dealing with Unemployment Insurance were passed during the period November 1920 to November 1921. A consolidating measure was passed early in 1922, whilst practically the whole of the first session of the new Parliament has been spent in discussing the problem. This legislative activity and Parliamentary interest in the questions involved has been accompanied by insistent propaganda in favour of numerous schemes, based on principles very different from those embodied in the existing Act. At the same time, so great is the dissatisfaction resulting from the protracted depression through which we are passing, that unwise action is being advised, if only to give outward evidence of the feeling.

Criticism of the existing scheme, the mixed chorus of support in favour of insurance by industry, the novel features of the Bill advocated by the General Federation of Trade Unions, the ingenious scheme of Prof. John R. Commons for the State of Wisconsin known as an "Unemployment Compensation and Prevention Bill," and the proposed merging of unemployment insurance with other schemes of Social Insurance, are the main questions relating to unemployment insurance which have arisen within the last two years. An attempt is made to examine them with a view to arriving at some conclusions which might help in the discussion of future action.

The great stress of unemployment in many industrial countries, and the encouragement of the International Labour Office to adopt certain international minima of labour conditions, induces many of these countries to look to the experience of Great Britain to guide them in measures of unemployment insurance. But they naturally find it difficult

to thread their way through the maze of recent legislation and regulations, or to elucidate the confused theories and views prevailing on this subject to-day. A just estimate is as much necessary for their guidance as for that of the public opinion of this country.

Perhaps the right place for a discussion of the future of Social Insurance would be the end of a volume which gave an account and an interpretation of this universal movement in the industrial world of to-day. Such an account of war and post-war experience is an urgent need of all students of labour questions. But the recent proposals to consolidate our various schemes of Social Insurance are so important that it seems desirable to refer to them here, at least briefly, especially as the future of unemployment insurance may be greatly affected by them.

Moreover, this discussion, coming as it does after the conclusion has been reached that the various proposals for giving effect to the idea of insurance by industry are not likely to be helpful in our present stage of industrial organization, may point the way to a surer means of giving the working classes of the community that greater security which they require.

Perhaps a more prophetic writer would have foreseen the urgency of these new problems when my study *Insurance against Unemployment* went to press during the post-war boom. But although touched on in that volume, they were not given that fuller discussion which their increased importance to-day merits, and therefore this lengthy appendix on recent developments has been written.

The argument of this book was first presented in a paper on "The Future of Unemployment Insurance," read before a meeting of the Economics Section of the British Association, held in Hull in September of last year, under the Presidency of Professor F. Y. Edgeworth. The author is indebted also to Professors A. L. Bowley and D. H. McGregor for suggestions in the ensuing discussion, and to Professor A. C. Pigou, Mr. H. D. Henderson and Mr. W. S. Thatcher for reading his manuscript and for valued criticisms.

FITZWILLIAM HALL,
CAMBRIDGE,
Feb., 1923.

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Insurance by Industry Examined

CHAPTER I

THE GROWTH OF UNEMPLOYMENT INSURANCE

THE ACT OF 1911

A NATIONAL system of Unemployment Insurance in the United Kingdom dates from the passage of Part II of the National Insurance Act of 1911. Prior to that year the only means whereby the workman could provide against this contingency were the various compulsory or optional "benefit" schemes of the trade unions¹ (these might provide unemployment, breakdown, stoppage, out-of-work, travelling, etc., benefits); but only some six hundred thousand workmen were insured by this means. The National Insurance Act was passed by Parliament on December 16, 1911, and contributions became due on July 15, 1912, although contributors did not qualify for benefit until six months later.

The Act was avowedly of an experimental nature, and had two distinct objects in view: the provision of compulsory insurance in seven selected groups of trades which were considered to be particularly liable to irregularity of employment, viz., building, construction of works, shipbuilding, engineering, construction of vehicles, ironfounding, and certain branches of saw-milling, and the encouragement by State subsidies of schemes of voluntary insurance through associations in *all* trades. Thus two entirely divergent principles were embodied in the one Act. A certain minimum

¹ A few workmen obtained this insurance through Friendly or Provident Societies.

of benefits in these seven selected trades was compulsory, and those engaged in them could voluntarily supplement these benefits through their associations.

Powers were granted to the Umpire, who was independent of the Board of Trade, which was then responsible for the administration of the Act, in defining which trades and occupations were included. The Board of Trade was also authorized to extend the scope of the Act to workmen in other trades, subject only to the consent of the Treasury. When first put into force the scheme covered upwards of 2,000,000 workers.

A uniform contribution was instituted of 5*d.* per week for adult workmen, and 2*d.* per week for workers under eighteen years of age, payable one half by the employer and one half by the worker in each case. The State contributed, in addition, a sum equal to one third of the total contributions of employers and workers. The sums thus obtained flowed into the Unemployment Insurance Fund. These contributions entitled the insured person, during unemployment, to benefits from this fund at the rate of 7*s.* per week for adults and 3*s.* 6*d.* per week for juniors for a maximum period of fifteen weeks during any twelve months.¹

The Act was administered through the employment exchanges which had previously been established in all parts of the country. The procedure adopted was simple and proved on the whole effective. When a workman was unemployed he was to report to the nearest employment exchange. If the workman was *bona fide* unemployed and suitable work could not be found for him, he had a right to receive unemployment benefit. Thus the important task of the employment exchange was to provide a test whether the workman was really unemployed and unable to find suitable work at the standard rate of pay. Employment exchanges and unemployment insurance were therefore indissolubly bound together. The latter could not be administered without the former, and the employment exchange which in times of depression could not find work for the unemployed would be of little value if it gave no benefits.

The Act provided for the establishment of Courts of Refer-

¹ A sum not exceeding ten per cent. of the income of the Unemployment Insurance Fund could be appropriated towards the costs of the administration of unemployment insurance.

ees to which workers might appeal against any disqualification from benefits made by the insurance officer of the employment exchange, and an Umpire was appointed to act as a higher Court of Appeal who could revise decisions of the Courts of Referees and settle disputes relating to the scope of the Act.

Interesting, in view of later developments, were the special provisions relating to workmen who were members of trade unions. Provision was made under section 105 of the Act enabling trade unions whose members belonged to the seven selected trades to make an arrangement with the Board of Trade authorizing them to pay unemployed members the aggregate amount to which they were entitled under the Act. This was conditional on the trade unions making provision for special additional benefits. It was therefore provided that no more than three-quarters of the total payments of the union were recoverable.

Arrangements were made also, as has been stated, for giving a State contribution as a subsidy to all trade unions, whether their members belonged to the insured trades or not, towards their provision of unemployment benefits.

Several devices calculated to reduce unemployment were included in the Act.

Rebates were offered to employers who kept their work-people regularly employed. But it was thought that these produced a negligible effect on the policy of employers and were expensive in administration in proportion to the sums involved and they were therefore not provided for in the Act of 1920.

The British scheme of compulsory unemployment insurance was the first scheme of its kind ever attempted, and by the time of the outbreak of the War it was demonstrated that compulsory insurance against unemployment was feasible. This was a significant fact because until then it was generally held to be impossible. It was also proven that the administrative problems were all capable of satisfactory handling.

EXTENSION OF THE ACT

The extension of the scope of the Act became then a question of time, although enthusiasts were not wanting

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even in 1913 who were pressing for its reform in this direction.

Indeed the limitation of insurance to selected trades became the main criticism of the Act. Other causes of criticism were the inadequate rate of benefits, the delay in repaying to the unions benefits which they believed they had rightly disbursed, but which did not satisfy all the conditions laid down by the administrators of the Act, and the hard cases which arose from the provision disqualifying from benefits workmen who were thrown out of employment by reason of a trade dispute in which they were not themselves combatants.

During the War period unemployment was reduced to a minimum. Contributions were being collected and the Unemployment Fund accumulated larger and larger reserves. It was a safe time to extend the Act.

The numbers insured in July, 1913, were over 2½ million, which owing to enlistments had fallen to 2 million by January, 1916. In that year the National Insurance (Part II) Munition Workers Act was passed. Its effect was to extend insurance to a further 1,500,000 work-people, chiefly employed on munition work or in the manufacture of ammunition, chemicals, metals, rubber, leather goods, bricks, cement and building materials, saw-milling and machine woodwork. The duration of this Act was limited to three years.

In 1919 the rate of benefit was raised from 7s. to 11s. weekly, and by the Act of 1920, which greatly widened the scope of the Act, it was raised to 15s. for men and 12s. for women. The increase in the scale of benefits scarcely kept pace with the increase in the cost of living.

THE ACT OF 1920

This Act provided that all wage earners excepting those engaged in agricultural work, or domestic service, were to be insured. Those engaged in continuous employments might be exempted in certain cases. Some 12¼ million people were thus compulsorily insured. The Minister of Labour was given certain powers to extend the scheme to any of the excepted employments by issuing an order to that effect.¹

¹ The Umpire no longer decided who came under the purview of the Act. This was now decided by the Minister of Labour.

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The contributions payable under the Act of 1920 were at the following rates :

	Employer.	Employed.	State.
Men	4 <i>d.</i> weekly	4 <i>d.</i>	2 <i>d.</i>
Women	3½ <i>d.</i> „	3 <i>d.</i>	1½ <i>d.</i>
Boys	2 <i>d.</i> „	2 <i>d.</i>	1½ <i>d.</i>
Girls	2 <i>d.</i> „	1½ <i>d.</i>	1 <i>d.</i>

The rates of benefit were 15*s.* for men and 12*s.* for women, with half-rates for boys and girls respectively. In view of the increased cost of living, more than double that in 1913, the rate of benefit was still very low.

For a short period after the passage of this Act trade was booming and considerable reserves were collected by the Unemployment Insurance Fund. The accumulation of reserves was greatly aided by the out-of-work donation scheme. Civilians from November, 1918, to November, 1919, and ex-service men down to April, 1921, could and did draw a larger sum as donation in preference to benefit. Indeed before the depression set in, some 22 million pounds were held in the fund with which to face emergencies. If the advice of those had been taken who urged the extension of the Act at an earlier period, say in 1914, or even, as was urged by Sir William Beveridge, in 1918, very considerable sums could have been collected in this way. When the collapse in trade took place the whole of this reserve soon threatened to be exhausted. Contributions were increased. Benefits were inadequate and they had to be increased. Growing discontent with the state of unemployment soon resulted in attaching blame to the system of unemployment insurance. The Government endeavoured to deal with this very difficult situation, without having decided whether to assume that the depression would last for a long time or not. This explains why there have been four Acts passed dealing with unemployment insurance during the years 1920-1921. The scope of the scheme was greatly extended, as we have observed, by the Act of December, 1920. It was soon amended by the Unemployment Act (No. 1), 1921, with the object of increasing the rates of contributions and of benefits. This received the Royal Assent on March 3. The industrial situation had become so grave that the calculations on which this Act was based were entirely upset. The scheme was

again amended by the Unemployment Insurance (No. 2) Act, 1921, by increasing contributions and lowering benefits. The Unemployed Workers' Dependants (Temporary Provision) Act was passed towards the end of 1921 in order to increase the benefits to married men who were insured under the scheme and were unemployed. Thus in one year there were four Acts of Parliament dealing with unemployment insurance. The Unemployment Insurance Act of 1922 had the effect of amalgamating contributions and benefits under the Unemployment Insurance Act (No. 2), 1921, and the Unemployed Workers' Dependants Act of the same year.

The most important feature of the Unemployment Insurance Act (No. 1), 1921, was the provision relating to the period of benefit. Under the 1920 Act, one week's benefit could be drawn for every six weeks' contributions, with a maximum of twenty-six benefits in any one year. Owing to the protracted depression, benefits threatened to become exhausted, and considerably over a million workers were still unable to find employment. By successive amending Acts provision was therefore made for four "special periods" between April, 1921, and July, 1923, during which benefits may be granted usually for a maximum of twenty-two weeks in each of four half-year periods, even when contributions are no longer available.

Special conditions apply to uncovenanted benefit. Thus, all claims of this kind must be passed by the Local Employment Committee, consisting of employers' and workmen's representatives, who must satisfy themselves that the applicant is normally employed in an insured trade, is able and willing to work, and is genuinely unemployed. Moreover, whilst for covenanted benefit an unemployed workman need not take employment other than that which he normally does, those applying for uncovenanted benefit must be willing to accept work other than that to which they have been accustomed, provided that they are reasonably capable of performing it.

Special restrictions have been placed on the grant of uncovenanted benefits. Boys and girls and single men, and women whether married or single, will not receive them if their parents or relatives can be reasonably expected to support them during unemployment. Similarly, those

working short time, earning on an average at least half their full-time earnings, will not obtain benefits. Aliens, too, are disallowed these benefits.

It is obvious that the restriction of uncovenanted benefits in this manner is wrong in principle. Certain classes of insured members will have to pay for the costs of benefits from which they are debarred.¹

It should be clearly noted that these benefits are provided out of the Unemployment Fund. They do not come from moneys granted by the Treasury. Moreover, those drawing these uncovenanted benefits will find that they count against future contributions.²

UNEMPLOYED WORKERS' DEPENDANTS (TEMPORARY PROVISION) ACT, 1921

The Unemployed Workers' Dependants Act of 1921 introduced a new principle into the Unemployment Insurance Act, one common in relief work, but objectionable to the idea of insurance.³ This was to take note of the needs of the applicants for benefits. Married men were to obtain an additional benefit of 5s. weekly for the wife and 1s. in respect of each dependant child. The Unemployed Workers' Dependants Fund was raised by an additional contribution by employers and by employed of 2d. a week

¹ No private insurance company would be allowed by the Courts or by the Government to make an arrangement of this kind.

² In view of this fact it may be doubted whether the special restrictions imposed with a view to economy are justified, especially since they increase the cost of administration. It is also being noted that the clause differentiating against alien workmen is contrary to the spirit of the undertaking entered into by this country when it joined the International Labour Office.

³ The extension of benefit can be justified even from the point of view of insurance principles. Bonuses and extra benefits are quite common. The essence of insurance is maintained whether the contributions are made in advance of the receipt of benefits or after its receipt, provided that all insured members will have a right to them on the same conditions. Even the differentiation in favour of married men may be justified on the ground that it is fair to assume that sooner or later most men will marry. But these considerations cannot be said to have much weight in justifying a purely temporary measure. This extended benefit has been largely responsible for the commonly held view that the Unemployment Insurance Act is no longer based on insurance principles.

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for each insured workman, and 1*d.* for each insured woman, boy, or girl. The State contributes to the Fund 3*d.* for each man insured and 2*d.* for each woman, boy, and girl.

THE PRESENT POSITION OF THE BRITISH UNEMPLOYMENT INSURANCE SCHEME

The following are the main features of unemployment insurance arising from the various Unemployment Insurance Acts and the Unemployed Workers' Dependants Acts, which have recently been consolidated.

BENEFITS

Benefits are at the rate of 15*s.* weekly for an unemployed man, 12*s.* for a woman. Workers under eighteen receive half-rates. An additional allowance of 5*s.* weekly is made to an unemployed workman in respect of a wife, or to a woman in respect of an invalid husband, and 1*s.* for each unemployed young child. There is a waiting period before benefits become due of six days. This provision strikes those engaged in casual intermittent work, like dock-workers, with peculiar severity.

CONTRIBUTIONS

The present rates of weekly contribution (including the amounts payable under the Unemployed Workers' Dependants Act) are as follows :—

	Men.	Women.	Boys.	Girls.
From the Employer . . .	10	8	5	4½
„ „ Employed Person . .	9	7	4½	4
„ „ State	6¾	5½	3¾	3½
	<hr/>	<hr/>	<hr/>	<hr/>
	2/1¾	1/8½	1/1¾	1/0½

Since November, 1920, to September, 1922, i.e. during a period of twenty-three months, over 96 million pounds have been distributed in benefits under the Act. The following table indicates the amounts disbursed and the rates of benefit for the same period.

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UNEMPLOYMENT BENEFIT PAID DURING PERIOD NOVEMBER, 1920,¹ TO SEPTEMBER, 1922 (APPROXIMATE FIGURES).

	£	Notes.
¹ November and December, 1920	1,048,000	Rates of benefit : 15s. (men) ; 12s. (women) ; November, 1920, to March 2, 1921.
January to March, 1921	7,480,000	
April to July 3, 1921	24,909,000	Rates of benefit : 20s. (men) ; 16s. (women) ; from March 3, 1921, to June 29, 1921.
July 4 to September, 1921	13,745,000	Rates of benefit : 15s. (men) ; 12s. (women) ; from June 30, 1921, to November 9, 1921.
October to December, 1921	12,364,000	From November 10, 1921. Dependants' allowance (wife 5s., child 1s.) included.
January to March, 1922	16,356,000	
April to June, 1922	10,555,000	
July to September, 1922	10,347,000	
Total	<u>£96,804,000</u>	

During the same period the contributions made have been as follows :—

Employers	£27,937,000
Workmen	23,328,000
State ¹	15,598,000
	<u>£66,863,000</u>

Thus during this long, continuous period of unemployment over two-thirds of the total amounts disbursed in benefits were obtained from the normal sources of income of the Unemployment Fund. Moreover two-thirds of the remainder came from the reserves of the Fund. Thus during the whole of this period the Fund borrowed from the Treasury

¹ To these amounts disbursed in benefits should be added the cost of administration, of the interest on the debt, and of refunds at the age of sixty, etc.

only one-sixth of the total costs of unemployment benefits. The Government Actuary estimated that the Fund would be indebted to the Exchequer to the extent of 28 million pounds by March, 1923. But although the debt may be increasing, it is clearly one which is to be repaid later by the Unemployment Insurance Fund.

Considerable elasticity is provided for in the administration of unemployment insurance. Thus whilst as a rule workmen draw their benefits through the employment exchanges, arrangements can be made for them to be drawn through their own trade unions or associations. Arrangements may also be made for increased benefits. Most important of all is the provision in the Act enabling whole industries to contract out and organize schemes of their own.

CHAPTER II

ARRANGEMENTS, SUPPLEMENTARY AND SPECIAL SCHEMES

THE scheme of Unemployment Insurance adopted in 1920 gives the Minister of Labour special powers to approve of arrangements to pay out the State benefit through trade unions or associations, to accept supplementary schemes whereby unemployed workmen may obtain a higher rate of benefit than is provided by the Act, and to agree to special schemes for industries which wish to contract out of the operation of the Government provisions. It should be noted, however, that "arrangements" and "supplementary schemes" differ fundamentally from special schemes, because the former are methods of working, and provide additional benefits for those who remain in the general State scheme, whilst the latter applies to those who have contracted out of the Government scheme. It is however convenient to treat them in the same chapter because they are frequently mistaken for one another, and it is desirable to point out their special characteristics, because they show how elastic the present scheme is, and their discussion provides a basis for an examination of the proposal of insurance by industry which is taken up in Chapter IV.

(I) ARRANGEMENTS WITH TRADE UNIONS OR ASSOCIATIONS

It is clearly advantageous that a workman who has to draw unemployment benefits from his trade union office should not have to claim and draw benefits in addition from the employment exchange, i.e. to have to deal with two distinct bodies to provide him with benefits against the one emergency. It is desirable also that the benefits

obtained under the general scheme shall be regarded as a minimum which should be supplemented by voluntary effort and that such efforts should be encouraged. It was therefore provided under section 17 of the 1920 Act that trade unions or associations paying unemployment benefits at a rate greater by at least one-third than those obtainable under the Government scheme may arrange for their members to draw their benefits direct from their own organizations instead of from the employment exchanges. This rate has now been "pegged," so that any association paying 5s. a week to unemployed men and 4s. to unemployed women may claim to be recognized, for this purpose. But in order to be recognized the trade union or association must have an approved system for ascertaining the rates of wages and the conditions prevailing in the trade or employment in which its members are engaged, and it must have an effective system for obtaining from employers notification of vacancies and for rapidly informing their members of them.

The object of these conditions is clear. Where an association has to disburse its own funds in addition to those of the State, it has an incentive to keep a careful watch over all payments made and to prevent the improper grant of benefits. It is essential also that bodies undertaking the distribution of benefits provided from a State fund should have a sound scheme for testing the *bona fides* of claimants, by being in a position to offer them suitable employment.

Let us examine the practical working of this arrangement in the case of trade unions and in the case of other recognized associations who together now distribute about one-eleventh of the total sum paid out by the Fund. Note the case of a man belonging to a trade union having such an arrangement. Supposing he elects, on becoming unemployed, to obtain his State benefit through his union. He makes his claim in the first instance at the exchange and signifies his intention to claim through his trade union. He signs a special form of claim and his dealings are then confined to his union. He need not attend at the exchange again during the currency of his claim. He must, however, sign the union's vacant book, as long as he remains unemployed, and as this is frequently kept at the employment exchange, he will in such cases attend it for this purpose only. The

benefit will be provided by the trade union either at the branch-meeting or by post, or by any other arrangement provided by that body.

The exchange, on receiving the claim for benefit, looks up the claimant's account—how many contributions he has made, and what benefits he is entitled to, since he may claim one week's benefit for every six weeks' contributions, and informs the trade union how many days' or weeks' benefit he is entitled to draw.¹ Then the union keeps a form showing whether the workman has duly signed the vacant book. On the basis of this form the amount which the union can recover from the Department is calculated.

How far do trade unions satisfy the conditions for recognition by the Minister? Clearly, a number of unions do give benefits in addition to those of the State, and frequently the amount given is much more than the additional third laid down as a minimum. Moreover, they are able to provide an excellent test as to the *bona fides* of applicants for benefits. They know the state of trade, their members who are at work inform them when vacancies occur, and frequently employers approach them directly when they require additional workmen, and, sometimes even undertake to engage all their labour through this channel.

But how far can other associations not trade unions satisfy these conditions? This question is of practical importance. Of the 141 associations with a total membership of rather more than a million, who have arrangements of this kind, 119 are trade unions and the other twenty-two associations, a number of them being employees' approved societies, are specially approved for this purpose.² More-

¹ Individual records for all insured work-people are kept by the Ministry of Labour relating to unemployment insurance. Twelve million individuals are insured, but deaths, removals, lost books, etc., necessitate the keeping of considerably over this number of records. The clauses which provide that workmen shall be entitled to claim one week's benefit for six weeks' contributions, and a refund at the age of 60 if they have not exhausted their full rights to benefit, involves the retention of workmen's books over the whole lifetime of those insured. Every time a fresh claim to benefit is made in any part of the country a reference is made to the records at the Claims and Record Office, Kew. During the last twelve months the number of references made to Kew was 6½ millions.

² Address delivered to Industrial Welfare Society on November 8, 1922, by Mr. T. W. Phillips, C.B., C.B.E., of the Ministry of Labour.

over, propaganda is being carried on for their extension.¹ It is true that these associations easily satisfy the first condition for recognition—an additional voluntary benefit, but can they satisfy the second test, the *bona fides* of applicants for benefit?

In order to do so they are developing another machinery parallel with that of the employment exchanges.

The arrangement works as follows:—Members of Chambers of Commerce undertake to notify them of any vacancies which occur in their establishments. The officials of the Chamber of Commerce prepare lists of these vacancies which are then circulated to associations administering the Act in the particular district. It is extremely doubtful whether this machinery is effective. There is no guarantee that members will not fail to inform the Chambers of Commerce of the vacancies occurring. There is no adequate means of learning of vacancies in establishments not connected with such Chambers. Moreover, unless the placement work of Chambers of Commerce is organized nationally and workmen can be directed from parts of the country where their services are not in demand to districts where they are wanted, one of the chief functions of employment exchanges is ignored.

But even if successful, it has been argued that it is objectionable, on grounds of principle as well as because of administrative considerations, for such associations to be encouraged. There is a danger that such establishment schemes will make labour less mobile by attaching workmen to a particular establishment and thus tend to increase unemployment. Again, a special type of worker may develop who is given preference because he claims benefits through employers' associations and not through employment exchanges or trade unions. Considerable opposition has therefore been shown towards the use of Chambers of Commerce as amateur employment exchanges, as they

¹ See pamphlet on *Unemployment Insurance*, by Mr. Henry Lesser. Any approved society, friendly society, provident society, etc., can have an arrangement under sec. 17, if it complies with the necessary conditions. There are one or two "Clerks' and Warehousemen's Societies" which provide unemployment benefits for their members very much as trade unions do, but apart from one or two of this kind it is chiefly employees' approved societies, often organizations confined to one establishment, which make such arrangements.

have been dubbed, and to the recognition of establishment approved societies for special treatment by the Ministry of Labour. The whole of this development is regarded as an attack on the trade unions and as a means of sabotaging the employment exchanges. Mr. G. D. H. Cole represents the great majority of Labour opinion when he declares, "This is of vital importance: we must have no truck with any system that allows each firm to have its own insurance scheme. That is a long step straight in the direction of slavery."¹ The recognition of establishment associations is regarded by many trade union officials as being only one shade less objectionable than establishment insurance schemes.

Another ground of objection to these approved associations is that they create yet another piece of new machinery for doing work which existing agencies can accomplish at least as well. Even if there were theoretical justification for their recognition, it should be realized that they introduce administrative complications. Further elaboration of principles is bought at too great a cost. But as a matter of fact they are the result of an opportunist arrangement, which in the long run will create more difficulties than it is ever likely to solve. The great need at the moment with respect to all measures of social insurance is unification and greater simplification and not the expansion of intricate detail. It may even be argued that the recognition of trade unions for this purpose may outlive its usefulness. But when the first Act dealing with unemployment insurance was instituted in 1911, their experienced and reliable machinery was of great help and their recognition was politically necessary. In a similar manner, the recognition of establishment funds before a national system of unemployment insurance has been adopted may prove to be desirable. But to create new bodies and so complicate and duplicate existing machinery is wholly objectionable.

ADMINISTRATIVE EXPENSES

These associations are, in effect, agencies for the payment of benefits. The Minister refunds the amount properly disbursed on his behalf, and allows them a certain sum

¹ *The New Leader*, December 8, 1922.

for administrative expenses. They received 1s. for administrative expenses for every week's benefit they paid out until May, 1922.

This procedure, as the First Interim Report of the Geddes Committee pointed out, increased the cost to the taxpayer. The advantages in the present system in the direction of fostering voluntary effort and saving and checking fraud are very considerable, so that the Interdepartmental Committee on Health and Unemployment Insurance¹ did not advise that the system of payment of benefits through associations should be discontinued. They argued, however, that the present cost to the Exchequer was altogether disproportionate to any public advantage that might accrue from the system. They recommended, therefore, that the rate of payment to associations for administration be greatly reduced, and further, that it be based on a sliding scale dependent on the rate of unemployment.

The amounts paid to recognized associations as administrative expenses in respect of the amounts they disbursed were :—

November 1, 1920, to March 31, 1921	£ 48,605
April 1, 1921, to March 31, 1922	539,785
April 1, 1922, to September 30, 1922 (approx.)	103,500

Up to the middle of May, 1922, the grant to associations for administration was 1s. per payment of a week's benefit to adults, and 6d. in the case of juveniles. From the middle of May to the end of June the rate was 8d., and from the end of June 6d. per payment for adults and 3d. in the case of juveniles. It is important to realize that the members of these associations remain in the general scheme.

(2) SUPPLEMENTARY SCHEMES

In the case of both arrangements and special schemes a grant of funds has been sanctioned by Parliament, but in the case of supplementary schemes, the third type of special provision, no part of the funds comes from this source. A Joint Industrial Council, or an association of employers and employees, may, with the sanction of the Minister, institute a supplementary scheme covering work-

¹ Cmd. 1644.

men in any industry that does not contract out under a special scheme, to provide insurance against short time or against unemployment not covered by the general scheme of the Act, or to provide a higher rate of benefit to unemployed workmen. Such a scheme may also provide for the establishment of a special administrative body.

The object in seeking the Minister's sanction is to enable the Joint Industrial Council to obtain a compulsory levy from all members in the industry. The clause embodying this provision (No. 20 of the Act) was passed to enable industries to provide a larger scale of benefits than that stipulated in the Act, should they so desire. The Joint Council of the Building Industry has contemplated setting up a supplementary scheme, but as yet no industry has definitely taken advantage of the clause.

(3) SPECIAL SCHEMES

The only provision for contracting out in the real sense of the term is under section 18 of the Act, which relates to special schemes. Such schemes are to cover the whole of an industry, are to be put forward by a Joint Industrial Council or an association of employers and employees, must be administered by a duly constituted Board of Management which must be legally distinct from the Council, and the unemployment benefits provided are to be not less favourable, on the whole, than the benefits provided by the Act. But they receive from the Treasury in respect of each workman not more than 30 per cent. of the Treasury grant per workman under the general scheme. Once a scheme is approved by the Minister it becomes legally binding on the whole industry. The individual employer and the individual workers are not free to choose whether they will belong to the special scheme or to the general scheme. Only one special scheme of this kind has been sanctioned. No more schemes are to be sanctioned during the "deficiency period."¹ Let us examine the main features of the Insurance Industry Scheme, the only special scheme in operation.

The Insurance Industry Unemployment Insurance Scheme came into force under a special order of June 24, 1921, and

¹ The right to form special schemes was suspended by the Act of July, 1921, for so long as the Unemployment Insurance Fund remains in debt. It is to be revived when the debt is paid off.

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includes about 85,000 employees. The scheme applies to all employed persons in the insurance industry, i.e. it applies to :—

(a) The insurance undertakings of all persons or groups of persons engaged, in the United Kingdom, in the business of insurance under contract.

(b) The insurance undertakings of all persons or groups of persons engaged, in the United Kingdom, in the administration of any system of insurance established by Act of Parliament.

The scheme therefore covers all those engaged in life, industrial, fire and marine insurance, as well as the staffs of all approved societies for health insurance. But the staffs of Government Departments administering social insurance are excluded. The scheme is administered by a Joint Board consisting of five representatives of employees and five representatives of employers, the Chairman and deputy Chairman being elected by the Joint Board. The Board controls and administers the affairs of the scheme, provides for its working expenses, appoints an actuary, secretary, and other officers, and frames the rules. The fees and expenses of the members of the Joint Board are limited to the sum of £600 yearly or such further sum as the Ministry of Labour may allow.¹ The Minister of Labour may supersede the Board in the event of the scheme being administered in a manner prejudicial to the interests of the persons insured under the scheme, and in such an event he may provide as he thinks fit for the temporary administration of its affairs.

No contributions are payable by employed persons, but provision is made for imposing levies on the workers, should this prove necessary. The benefit funds are derived from contributions levied upon employers and from payments made by the State, the latter amounting to a sum not exceeding three-tenths of that which would have been payable to unemployed persons under the Act. Employers paid 4*d.* per week for men and boys and 3½*d.* per week for women and girls when the scheme was inaugurated. Unemployment benefit was made payable at the rate of 20*s.* a week for men, and 16*s.* a week for women, with 5*s.* for

¹ £1,000 was allowed for the first year. (See Report on First Year's Working of the Insurance Industry Scheme.)

a wife or disabled husband, and 1s. for each young child, half these sums being payable to boys and girls.

Claims to benefit are made as under the Act. In cases of dispute the Board adjudicates, claimants having the right of appeal to the Umpire.

The Board must establish a "reasonably effective" system for obtaining notification of vacancies and communicating them to unemployed members.

The Minister has power to levy contributions on employees, to raise the contributions of employers and to lower the rates of benefit, if the scheme is in danger of insolvency, and to dispose of any available surplus by increasing benefits or lowering rates of contributions. If the fund should become insolvent, employers in the industry are required to make good any deficiency by special contributions. The fund has been guaranteed for seven years.

Owing to the exceptional regularity of employment in the industry, it was possible, at the outset, for the scheme to be non-contributory in so far as the workers were concerned. In spite of this fact, and without any increased burden on the employers and the State, benefits were higher than under the State scheme. Their employment is as regular almost as that of Civil servants.

It should be borne in mind, however, that if a special scheme were established for an industry with a high percentage of unemployment, it is certain that the rates of contribution by employers and workers would have to be higher than those paid under the general scheme, assuming that benefits were to remain at their present scale.

The Government Actuary estimated that about 3,600,000 persons engaged in industries with a low average of unemployment would seek to contract out of the Act, but, as we have seen, only one trade was able to introduce a scheme acceptable to the Minister of Labour before the depression set in. The depression was not solely responsible for this. The difficulty in demarcating industries is very great and the organizations within the industry have different interests and views which are not always easily reconcilable. Schemes have been prepared or are contemplated by the postal workers, the cotton operatives, the Joint Industrial Council for the printing industry, the banking industry, the match industry, for the Yorkshire wool textile trades, for

hosiery workers, boot and shoe operatives, for the dockers, and for the building industry. It is commonly held and, it must be agreed, with some reason, that "special schemes" have been discouraged by the authorities. Thus one writer states that: "Under the Insurance Act of 1920 'contracting out' was provided for, but it was penalized, while at the present moment it is prohibited altogether." The Ministry of Labour's reply to the first charge is that the schemes presented to it are not clearly developed or actuarially sound, or administratively feasible. It is also pointed out that if the industries with a low percentage of unemployment contract out of the scheme, then the burden on the Unemployment Fund of the industries which remain in the scheme, i.e. those with a comparatively high percentage of unemployment, will become proportionately greater. The reduced grant from the Treasury to those which contract out will offset only to an extent this increased burden.

Assuming that the development of unemployment insurance by industry be desirable, although the case against it is certainly strong,¹ then it seems clear that the soundest way of proceeding is to facilitate and encourage industries to contract out of the Act by aiding them to prepare special schemes under section 18. It would, however, prove harmful to imagine that further developments along this line will have a profound effect in reducing the amount of unemployment or indeed that they will mark any significant improvement on the present situation with respect to unemployment insurance. The influence is likely to be slight.

It is clear that the Act provides a wide field for experiment. But although the special arrangements and schemes which may be sanctioned under the Act, and, indeed, the scheme as a whole, have had very little time in which to work, impatient demands are being made that in its place there should be established a system of unemployment insurance by industry. Workmen in different trades would be assigned to specified industries. These large industries would then organize a body of employers' and workers' representatives who would administer a special scheme suitable to each industry. All workmen would be compelled

¹ See Chapter IV.

to be insured as to-day, and trades would be compelled to belong to certain industries. It assumes that even when the State does not itself deal with unemployment through a national scheme it must see that it is properly dealt with.

A new principle of maintenance by the industry, whether employed or unemployed, is contemplated. A Bill has been prepared for giving it effect. Which of these two, the existing scheme or the proposed new scheme, is more desirable as the permanent method for dealing with unemployment insurance? Let us first examine the criticisms of the present scheme and see how far they carry us.

CHAPTER III

CRITICISM OF THE PRESENT SCHEME

THE existing scheme of unemployment insurance in this country has been subjected to a constant fire of criticism during the last two years. It is asserted in opposition to it : (1) that the costs of its administration are unduly high, (2) that a vast bureaucratic and expensive machine has been built up, (3) that applicants who are not *bonâ fide* unemployed are receiving benefits, (4) that the Unemployment Insurance Fund is bankrupt, and (5) that the wholesale distribution of "doles" is demoralizing those who are without employment. It is therefore argued that the present State system of unemployment insurance should be scrapped, and that one based on the plan of insurance by industry should be adopted in its place. Now if it is thought that these criticisms are well founded, it is certain that there will be a greater readiness to welcome the new proposal. It is then necessary to examine their validity and to discover also the case in defence of the Government scheme.

HIGH ADMINISTRATIVE EXPENSE

In 1919-20 the costs of administration of employment exchanges for all their varied functions were £3,600,000. These covered not only the charges for administering unemployment insurance but also the costs involved in filling vacancies as quickly as possible, in providing statistical information and in thus enabling the Government to measure the extent of unemployment, in providing machinery for dealing with casual labour, in directing boys and girls into suitable occupations, in aiding those who wish to emigrate, in administering a number of post-war schemes, and in helping in a host of miscellaneous functions. It is therefore misleading to charge up the whole costs of the employment

exchanges to the account of unemployment insurance administration.¹ Moreover, uncovenanted benefit is relatively expensive to administer. Instead of having the number of contributions made by the applicant for benefit to rely on, the exchanges have to scrutinize each claim for uncovenanted benefit on general lines.

Now unfortunately we have no tests whereby we can discover whether administrative costs are high or low. Is 20 per cent. high or low? How are we to develop tests? Will we be justified in comparing the administrative costs of State unemployment insurance with private insurance company undertakings? Let us note the conclusion we are driven to, if we adopt this test.²

The percentage of administrative costs to the sums disbursed in unemployment benefit is about 8·8 per cent. The administrative expenses (including profits) of proprietary insurance companies for undertaking workmen's compensation during the last ten years has been 50 per cent., whilst the Holman Gregory Departmental Committee recommended that in future their administrative costs and profits shall not be allowed to exceed 30 per cent. of the amounts paid in premiums. Thus the State unemployment insurance scheme, together with a group of other functions, are administered at a percentage cost very much below that taken by insurance companies for administering workmen's compensation. The Parmoor Committee reported that industrial insurance is administered by the insurance companies at a cost of 44 per cent. Fire insurance companies too have recently had an expense totalling 50 per cent. On the other hand, the Government non-contributory scheme of Old Age Pensions is administered through the Post Office at a charge of 3·1 per cent.

The assertion that the administrative expense is high

¹ Even to-day the employment exchanges are still being used for a host of miscellaneous functions, but the portion of the charge which should be assigned to unemployment insurance is higher than it was in 1920, owing to the work involved in distributing uncovenanted benefits. The Civil Service Estimate for 1922-23 relating to the Employment and Insurance Departments of the Ministry of Labour indicates that there are 273 officers at the Headquarters, nearly 4,000 at the Claims and Record Office, and 12,527 at the various provincial offices. Their salaries amount in the Estimate to £3,602,061.

² See Appendix III.

may be countered with the charge that it is less than a quarter of that of private insurance companies.

THE CHARGE OF BUREAUCRACY

It is difficult to understand exactly what is meant when the charge of bureaucracy is launched against a Government department. All large undertakings, whether organized by a Government or by a private company, tend to have some of the characteristics vaguely indicated in the term : slowness, cumbersome methods, delay in countermanding a decision proved to be mistaken, subordination of matters of relatively greater importance to considerations of routine and inflated staffs ; in short, all those elements vaguely referred to in the popular mind as "red tape." A railway company or a large insurance company suffers from the same failings and is subject to the same criticisms. Wherever, to-day, a central office must lay down regulations governing thousands of employees in all parts of the country, these complaints arise. It is to be found even in the most highly organized and efficient department stores. It takes considerably longer to buy an article at Selfridge's than at a small shop in a back street. This is the price society pays for the greater economy and greater efficiency, in other directions, of the large undertaking. In time, perhaps, both large corporations and departments of State will so improve their technique of administration that these failings may be remedied to some extent. Meanwhile, there are two respects in which Government offices are more satisfactory than large private corporations. Though slow to respond to public criticism, they are quicker in adjusting themselves to public demands than are private corporations, if only because the Minister must meet criticism in Parliament, or sooner or later the Government will be obliged to appeal to the country. Moreover, some Government departments, such, for example, as the employment exchanges, are supervised very largely by members of the public, in this case by representatives of trade unions and employers' associations. Advisory committees in the various localities are nominated by organizations of employers and employed, only the chairman being the direct nominee of the Minister.¹

¹ A strong case may be made out in favour of the establishment of a Central Advisory Committee to the Employment Exchanges and for giving local employment committees greater power.

It is for the critics of employment exchanges to explain in what way they are more bureaucratic than large private corporations and trusts.

It must, however, be noted that these general considerations do not really help to establish whether or not the staffs engaged in the Employment Exchange and Unemployment Insurance Department of the Ministry of Labour are actually too large for the work they are doing. That is a matter which still remains to be investigated, whatever general assertions may be made on both sides of the controversy.

THE TEST OF UNEMPLOYMENT

Is it true that applicants who are not *bonâ fide* unemployed are receiving unemployment benefits? This assertion has been freely made, but no one would appear before the Departmental Committee of Enquiry¹ into the Work of Employment Exchanges to substantiate it. Applicants for benefit must not only be without work, but must be unable to find suitable employment.

Employment exchanges in every part of the country know when vacancies are available, and if claimants for benefit can be directed to suitable employment they will not be given benefits. During periods when uncovenanted benefits are paid the local employment committees, consisting of local employers and trade union representatives, weed out undeserving applicants. It is safe to assert that a better substitute for the unemployment test—which is not available at present—could scarcely be devised. There is no evidence whatever to support the assertion that the exchanges fail to provide a fairly rigid test of unemployment, and that they do not check the drawing of benefits by those who could otherwise be in employment. In a scheme covering over twelve million work-people the employment exchanges have on the contrary been highly successful in preventing abuse.

It is of course true that the unemployed are likely to be the less efficient and less willing workmen, but even if all workmen were equally capable and ready for work, practically the same number would probably be unemployed. But, nowadays, when demand for labour is reduced the same group of least efficient workmen is dismissed again and again.

¹ Cmd. 1054, Cmd. 1140.

THE CHARGE OF BANKRUPTCY

Is the Unemployment Insurance Fund bankrupt?

Two years ago, during the boom which succeeded the War, the Unemployment Insurance Fund built up a reserve of some 22 million pounds which was invested in Trustee securities. Owing to the abnormal period of unemployment through which we have been passing its ordinary sources of income have not been adequate to meet the claims for benefit. It has therefore borrowed $14\frac{1}{2}$ million pounds from the Treasury. It is absurd, its supporters urge, to say that the Unemployment Insurance Fund is in consequence insolvent merely because it has an overdraft. How many business men would escape the Bankruptcy Court if insolvency became synonymous with an overdraft at the bank? It should, however, be noted that an insurance company which had to borrow to meet its obligations would go into liquidation. But probably half the amounts disbursed by the Unemployment Fund have been in uncovenanted benefits. These are wholly free grants to which the contributor has no right.¹ Had these not been granted the Fund would still have considerable reserves.

Since November, 1920, to August, 1922, some 90 million pounds were distributed by the Unemployment Insurance Fund, of which 56 million pounds came from the usual channels, the employer, the workman, and a certain percentage contribution by the State, 22 million came from the reserve, and the remainder was borrowed from the Treasury.

It should be recalled that the Unemployment Insurance Act of 1920 provides for the receipt of one week's benefit for every six weeks' contribution. Owing, however, to the protracted depression workmen who had exhausted their rights to benefit were granted periods of additional benefits. It was to meet the costs of these additional benefits, which ought to have been a direct charge on the Treasury, that the Unemployment Insurance Fund was obliged to borrow. No one foresaw how long the trade depression would last, and it is safe to say that no other system of unemployment insurance could have met this protracted period of unemployment more successfully. Even to-day it should be noted

¹ But he will be called upon to pay later when business improves.

that the normal sources of the Fund's income are providing some three-fourths of the expenditure. If the number of unemployed was reduced to one million, then not only would the benefits be payable from current income, but the debt also could be paid off quite quickly.

“ THE DOLE ”

It is an evident abuse of terms to call unemployment insurance benefit, towards the costs of which a workman has himself contributed, “ a dole.” It is no more a dole than the sum obtained in consequence of a fire to property is a dole. It is a legal right which cannot be denied him, but the unwise policy of constantly heaping abuse on both the unemployment insurance benefit and the administrative machinery in charge of it, the employment exchanges, tends to attach a stigma to those who take benefits or use the exchanges. The effect of this constant vituperation will be to attach to employment exchanges the disgust previously attached to Boards of Guardians, and the effect of dubbing benefits “ doles ” will be to make them synonymous with charity. It is a fact that the way society regards a particular piece of legislation profoundly affects those to whom it applies. If Old Age Pensions are regarded as a right conditional on a life of service to industry, and therefore as honourable as any Civil Service pension, it will affect the recipients. If unemployment insurance benefit is treated as nothing more nor less than outdoor relief or charity, that too will have its reaction on the workers. Indeed the effects have already become evident. Having been regarded as if they were beggars for a dole when they claimed unemployment benefits, hundreds of thousands of unemployed workmen became more ready to beg and went to the Poor Law Guardians for relief.

Surely, the truth is that workmen have a right to unemployment benefit, and that knowledge would prevent complete demoralization from setting in even though they are without the discipline of employment for some time. To receive what they have a right to is not demoralizing, unless indeed this atmosphere of charity is made to surround it.

Of course, this was only one of the causes why the Poor

Law Guardians were inundated with applicants for relief.¹

Nor is it true that "doles" are being given to those who will not work or cannot work. Abuse should be directed elsewhere, e.g. at those whose policy has aggravated unemployment rather than at its chief victims. If there were evidence that the unemployed as a body are "work shy," that they do not want to work, there might be some justification for this criticism; but as a matter of fact the experience of many towns shows that the men prefer to work rather than accept assistance without earning it. Thus the Clerk of the Newcastle-under-Lyme Guardians writes: "The men who applied to the Guardians for relief were anxious to work, and not one refused work when it was found for him." ■ This is also the experience of the Whitby Guardians and others. Road-improvement schemes, when sanctioned by the Government, attract large numbers of the unemployed who prefer work to inaction. The Minister of Labour has opposed the view that this work is inefficient and costly, as is frequently stated. He said: "What I value particularly in the whole of the scheme is that the reports of the inspectors with regard to the work all comment on the very excellent standard of product that results. So good is it that, while in the old days relief work only came within about 33 per cent. of the value of ordinary labour, this work on these arterial roads is reported to be within 20 or even 10 per cent. of the normal value, and in some cases the output is equivalent to ordinary labour used in the work." When it is recalled that many of these people are not ordinarily employed at work of this kind the result bears testimony to the eagerness of the men for employment and their readiness to work hard.

It is neither wise nor just, therefore, to conduct a systematic campaign of abuse against those who are compulsorily insured in a Government insurance scheme.³

¹ See Appendix IV, *Insurance against Unemployment*, by the present writer.

■ It may, however, be agreed that a few workmen prefer casual work, or work of the type provided by the Guardians, to the more continuous and perhaps sterner discipline of ordinary employment under competitive conditions.

■ Nor is it honest to attack employment exchanges, and their administration of unemployment insurance, as part of the campaign aimed at discrediting all nationally administered schemes. The

The term "dole" was in recent years first applied to the out-of-work donation given by the Government out of the Treasury to ex-service men, including seamen and civilians who were unemployed within the twelve months following their personal demobilization. Some 40 millions were distributed on ex-service men and 22 million pounds to civilians; payments were terminated for the former, with few exceptions, in March, 1921, and for the latter in 1919. The essential difference between the out-of-work donation scheme and the Unemployment Insurance Scheme arises from the fact that *donations* were paid to the unemployed as a free gift, entirely from State funds, whilst *benefit* under the Unemployment Insurance Act are on a contributory basis and payments were made out of a fund to which working people and their employers themselves contributed about three-fourths.

UNEMPLOYMENT PREVENTION

If, however, most of the current criticism of the Government scheme of unemployment insurance seems to be almost entirely without foundation,¹ it is not because there have not been very serious omissions and errors on the part of those responsible for the legislation bearing on, and the administration of, unemployment schemes. It is clearly desirable that unemployment should be prevented rather than that its victims should enjoy the best scheme of insurance. And yet the authorities have not inquired seriously into the possibility of preventing unemployment, or at least of

Press agitation against the Civil Service, the most efficient, the most devoted, and the most honest to be found in any large country in the world, seems to be inspired largely, it would appear, by the desire to prevent schemes for nationalization of certain industries, or the control of others, from being examined on their merits. It is interesting to learn that the newly formed Institute of Public Administration has made it one of its purposes "to keep the public constantly informed by means of lectures and publications as to the functions, aims and utility of the Public Services" (see "The Aims of the Institute of Public Administration," by H. G. Corner, in No. 1 of *The Journal of Public Administration*).

¹ The motive of economy which inspires many suggestions on the subject is not very helpful in the development of an effective system of insurance. The mere transference of the burden of expenditure from the State, i.e. the taxpayer, to the employer and his workmen is not in itself an economy.

reducing its extent. A considerable amount of unemployment was expected after the War and yet no proposals were adopted for meeting it or for the adequate relief of its victims. It is still true that during periods of activity far too little thought is devoted to the investigation of such proposals, however full of promise they may be. Not until the social danger is great and industrial waste is enormous is the question considered at all, and then it is too late to do more than improvise relief schemes.

The most difficult part of the unemployment problem is to understand and to eliminate the causes of general depression of industrial activity. Seasonal unemployment, or the problems resulting from the employment of casual labour involving permanent under-employment, are easy to understand and can to some extent be dealt with by improving the organization of the industries affected and by increasing the mobility of labour. But variations in industrial activity, with depressions following booms, with all industries affected in the same way, all enjoying periods of prosperity pursued by periods when there is little work, cyclical fluctuations—these constitute a problem for which there is no ready solution or simple programme.¹

Three main lines of inquiry are suggested by economists so that guidance may be obtained in outlining policies and programmes for dealing with cyclical unemployment.

THE TRADE BAROMETER

An examination into the disturbances to which prices, trade, and credit are subject has shown such a degree of uniformity in the past that economists talk of the recurrence at more or less regular periods of a trade cycle. It consists of a period of intense industrial activity and high prices leading to a panic of greater or less violence, a period of falling prices, and then a depression in which prices are low and unemployment very common, until all available stocks are exhausted, and then a greater demand, followed by more confident investment, higher prices, greater pro-

¹ These cyclical fluctuations or trade cycles were common throughout the nineteenth century. The present depression is perhaps the greatest we have experienced. The usual factors making for a trade depression have been aggravated by the effects of the War and by the policies adopted by the various Powers since then.

duction, thus leading up to the next crisis. Now because trade activity seems to follow these cycles, it is suggested that it might be possible at any given moment to forecast the next phase and indeed to predict fluctuations. In the same way as the barometer indicates what weather may be expected, so, it is urged, will it be possible to foresee the state of trade in the immediate future.

Professor Ottolenghi of Turin first suggested the construction of a trade barometer. It is clear that, to prove valuable, it will be necessary to collect the records of industrial activity in all the important industrial countries in the world, since the trade cycle is a world phenomenon. Secondly, not until we have collected statistics for a series of years can we hope to obtain much guidance from it. Thirdly, our records must cover as many as possible of the different branches of finance, commerce, and industry which will indicate the state of trade. It would be helpful to learn from manufacturers in different industries what is their monthly output and their prospective output. In time we shall learn which of the many series of figures collected are most significant.

A second line of inquiry needs to be made to discover whether a modification of the British banking organization, or a change in the conditions under which loans are made, could help to prevent booms from growing speculative and thus precipitating us into a pit of depression. Bankers control the credit system and could therefore be very powerful in guiding industry. To do this effectively they would need to know much more about commercial needs and prospects than they know nowadays.

When the Government and the banks had collected sufficient information to enable them to forecast the next phase of trade activity, whether it be by means of a trade barometer or by some other means, then the attempt could be made to accelerate or retard production as seemed desirable. Excessive caution on the part of business men owing to nervousness, or undue enterprise through excessive optimism, would tend to be avoided when the evidence against these policies was definitely indicated. The object aimed at would be to regularize the demand for labour, to safeguard against a boom, to moderate it if it cannot be prevented, and to restrain a reaction into a slump. How far this can be done

and how it should be attempted are questions urgently demanding investigation.¹

Another proposal has reached a stage which may be of more immediate help in sustaining economic activity and thus in stabilizing the labour market. But in this case, too, although the proposal has been made for over a decade, little attempt has been made to discover how best to give it effect, and how far it may be expected to achieve the purposes required. It is proposed to carry out orders of public bodies, and such other orders as are within the control of public bodies,² in such a manner that they are greatest when general trade is lowest, and least when general trade is most active. This will necessitate planning public work over a period of say ten years and of accelerating and retarding it as seems desirable. What proportion of public work can be held back or accelerated remains to be discovered.

During the present slump this policy has, indeed, been adopted to a small extent. It matters very little whether public work is retarded during boom periods or accelerated during periods of depression. The Government construction of roads *now* means that they will need less of this kind of work later. Similarly, the Manchester Town Council has accelerated the construction of a new reservoir, and other municipalities are also engaging in public works, which would not have been undertaken at present but for the depression.

The criticism levelled against the Government, central and local, is that these works are decided upon when the crisis is really on, and not in advance, so that they are not likely to be accomplished as economically as they would have been if carefully planned. Moreover, since Governments, like business men, are cautious during periods of depression, they are not likely to push these activities as

¹ The scientific study of trade fluctuations in Great Britain has been taken up jointly by the University of Cambridge and the London School of Economics, in the United States by the Harvard University Committee on Economic Research, and in Italy by Professor Ottolenghi. See the article by Professor A. L. Bowley in Section 2 of the *Manchester Guardian*, Commercial Reconstruction in Europe Series.

■ E.g. the railways or colleges receiving public subsidies.

far as they should go,¹ and as far as they might go if they took a ten-year view with respect to this matter.²

It is important to remember that in the carrying out of any proposals for preventing unemployment, it will be essential to have accurate knowledge of the extent of the evil and the necessary machinery for carrying them out. No alternative to the employment exchanges has as yet been suggested.

THE SCALE OF BENEFITS

It is now generally agreed that the scale of benefits is far too low. But if a flat-scale rate is continued for all wage-earners, whether they earn a comparatively high or a comparatively low wage, it is manifest that all must receive the benefits provided for the lowest paid workman. Otherwise the anomaly would frequently occur of a man receiving more when unemployed than when engaged in his occupation. Thus if the scale of benefits were calculated to suit the conditions of, say, a skilled engineer who earns on an average £4 a week, and it was decided that during periods of unemployment he and all other work-people were to receive £3 a week, it would mean that the carter and general labourer would be better off when unemployed than when they were engaged at their normal wages. A graduated scale of benefits is therefore urgently called for, even though this will add to the work of administration.³

Two methods can be employed to give it effect. Either benefits may be calculated as a percentage of the normal wage of each workman, or all work-people can be assigned to a definite number of wage groups who will pay their contributions according to their group and obtain corre-

■ It is pointed out that if public works had been attempted in the early part of the present depression it would have tended to prevent a fall in prices and wages and so to lengthen the depression. The advocates of the proposal state that if it is adopted prices and wages will tend to be on a more even level. Even if the first effects are unsatisfactory, the costs of public works being high, this condition would never recur. But the case for engaging in public works to day when prices and wages are low is conclusive.

■ Another promising line of inquiry relates to the possibility of keeping prices within a certain range of fluctuations by using, if necessary, the Government's control over the money mechanism.

³ Malingering would tend to increase if benefit rates were near wage rates. To check this danger administration would perhaps become more costly.

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sponding benefits. Experience seems to indicate that the second method, which is adopted in the scheme of invalidity pensions ¹ in Germany and of sickness insurance in Czecho-Slovakia, is administratively more desirable. It is because unemployment insurance benefits have hitherto been very low that Poor Law relief has had to supplement them.

POOR LAW RELIEF AS A SUPPLEMENT TO UNEMPLOYMENT INSURANCE.²

The number of persons in receipt of Poor Law relief in England and Wales on the last Saturday in June, 1922, was 1,769,400, equivalent to 1 in 21 of a total population of 37,885,000. This proportion is greater than at any time since 1871.³ It was 1 in 26 at the end of March, 1922. The maximum number was reached on June 17, when 1,838,000 were in receipt of relief, of whom 1,559,566 were in receipt of outdoor relief, the remainder being inmates of institutions. It should be noted that these figures relate to a summer period, so that it seems possible that they may be increased during the coming winter.

The Ministry of Health points out that :—

“ The effects of the long-continued industrial depression made themselves felt during the quarter upon the number of persons in receipt of Poor Law relief. The week ending June 24, 1922, was the thirty-ninth in succession in which the number of those persons exceeded 1,300,000 and the tenth in succession in which the number exceeded 1,600,000. On Saturday, June 17, 1922, it was nearly 1,838,000.

In June, 1914, the number in receipt of outdoor relief was 372,156, so that it is now four times as large as then. The increase is directly due to the policy pursued by the Government in its treatment of unemployment. The amount obtainable as unemployment insurance benefit is inadequate for the maintenance of health, so that even some of those in receipt of benefits are supplementing their

¹ *Technical Survey of Agricultural Questions* : Social Insurance, pp. 555 and 569. International Labour Office.

² Quarterly statement showing the number of persons in receipt of Poor Law relief to June, 1922. Ministry of Health (Statistical and Local Taxation Branch), September, 1922.

³ Previous to this year the 1,105,234 persons in receipt of relief at the end of December, 1862, during the cotton famine, was the highest recorded total.

income by appealing to the Boards of Guardians. Moreover, when they have exhausted their right to benefits, and during the "gaps" when unemployment insurance is provided only to those whose benefit rights are not exhausted, they have no alternative but to appeal for Poor Law relief.

Of the 1,224,946 persons in receipt of outdoor relief in September, 1922,¹ 809,315 consisted of unemployed and their dependants. Of these 756,671, i.e. 93·5 per cent., belonged to families whose heads were insured under the Unemployment Insurance Acts; only 193,060 were men, 174,527 were women, and 389,084 were children under sixteen years of age.

Since the depression the Boards of Guardians who administer the Poor Law system have expended some £60,000,000 by way of relief and the Government has decided to advance loans to them during the winter of 1922-23 to continue the payment of relief.²

It is suggested by critics of the scheme that insurance ought to be made adequate to the needs of unemployed

¹ It should be clearly noted that the number of insured members drawing unemployment benefit does not include the number of their dependants, whilst the figures for those drawing out-relief does include their dependants. Thus of those obtaining relief probably only one-third were actually insured members. This would suggest that some two-thirds of the unemployed are still resisting the temptation to ask for out-relief from the Poor Law authorities or are being refused.

² The sums paid in outdoor relief vary from locality to locality, though in each there is a definite scale granted. The outdoor relief regulations for London approved of by the Ministry of Health are as follows :—

	Not exceeding	
	s.	d.
For man and wife or two adults living together .	25	0 a week.
For children under 16:		
For a first child	6	0 „ „
For a second or third child	5	0 „ „
For a fourth or subsequent child	4	0 „ „
For an adult living with parents or relatives .	10	0 „ „
For an adult not so living	15	0 „ „

Fuel up to 1 cwt. a week in winter (November 1 to March 31) or $\frac{1}{2}$ cwt. in summer (not exceeding 3s. in winter and 1s. 6d. in summer) may be granted in addition to the above amounts. Relief under the Poor Law is thus larger in at least some areas than benefits under the Unemployment Insurance scheme. (These regulations are dated January 4, 1922.)

workers and not to be part of a wider scheme of which the unsatisfactory and antiquated machinery of the Poor Law remained an important part. The payment of benefit by the employment exchanges and of supplementary payments in the form of outdoor relief by the local authorities, the existence of two administrative bodies attending to the same problem, is undesirable. It is costly and wasteful. The proper function of the Guardians is to inquire into and relieve individual cases of exceptional distress. Each case should be investigated and should be treated as a special case requiring special treatment. But to-day, even with their increased staffs, the Guardians cannot adequately investigate every case. In most areas they have adopted a fixed scale of relief without special regard to individual needs. They are relieving over a million unemployed weekly. The Guardians are a highly unsatisfactory body for dealing with this question.

This situation is one of the results of having a scale of benefits far too low to maintain the unemployed even in pinched conditions. It points to the necessity of raising substantially the scale of normal benefits to such an extent that payment in the form of outdoor relief by the local authorities can be confined to its proper sphere, viz. aiding in cases of exceptional distress.

But the most serious objection to calling in the machinery of the Poor Law is that it gives relief only when the workman is in need and thus differentiates in favour of the man who doesn't save and against the man who is abstemious and does save. If a workman is receiving benefits from a trade union, to which he has contributed, or if he has savings in the Post Office, or even if he has jewellery or good furniture, he will as a rule be denied outdoor relief.

THE TREASURY AND THE ABNORMAL PERIOD

But how are the costs to be provided?

Considering the abnormal period through which the unemployment fund has operated during the two years of its existence as a really national system, it has weathered the storm better perhaps than any other scheme of unemployment insurance could have done, and certainly better than even its warmest advocates thought possible. But it is clear that its value as an insurance scheme was in a measure

lost when the Guardians were besieged for poor-relief and a scale of outdoor relief was provided for those in need. To carry on a scheme of insurance to meet part of the problem, a scheme which is becoming increasingly in debt, which continues because there are frequent gaps, when benefits are not paid, and which is unduly burdening those employers and workmen who are at work, seems wholly undesirable.

A complete change of the methods of providing relief is called for. Let the Government recognize an abnormal period. Let the employment exchanges be used for distributing unemployment *grants*, because they are the most experienced body for the purpose, but these grants should come from sums provided by the Treasury and not from the Unemployment Insurance Fund.¹

Apart from the criticism directed against the general inadequacy of the benefits provided, and the consequent recourse to the Guardians, greatest objection to the Government scheme results from the difficulties arising during trade disputes.

Considerable hardship and consequent dissatisfaction arises in respect of unemployment resulting from a trade dispute. At present a worker is disqualified from the receipt of benefit if his employment arises from a trade dispute in his factory, even if he is not personally involved. Thus, supposing the engineers in a metal works go on strike and the factory is closed down, the clerks, the carters, and others not directly involved in the dispute and who have no concern in it will lose their right to benefit. If, however, the employees of another factory are thrown idle in consequence of this strike they do not forfeit their right to benefit.²

UNEMPLOYMENT INSURANCE HARDLY CHALLENGED

Whilst criticism of the present scheme of unemployment insurance has been fairly common, there has been very

■ Contributions ought still to be collected from those at work and the costs of providing benefits for the normal amount of unemployment of those insured ought to be paid over by the Unemployment Fund to the Treasury. Nothing should be done to prevent the operation of the scheme of unemployment insurance in a revised form after the abnormal unemployment comes to an end.

■ A Committee appointed by the Minister of Labour, employers of labour, and trade unions, is at present investigating this problem and how to deal with it.

little expression of a desire to abolish it altogether. It is accepted almost by all as an indispensable part of the labour legislation of the country. Criticism, whether by employers or workmen, is as a rule directed at details, or to the development of alternative schemes. The fundamental device of insurance against unemployment is generally accepted.

Occasionally an argument may be levelled against the whole policy. Thus it has been stated that the institution of employment exchanges and the provision of unemployment insurance has had the effect of making employers feel less than ever any responsibility towards the workmen whom they dismiss, and who may, in consequence, be unemployed.¹ Opposition to these social measures comes also from employers who demand that the State should leave them alone to deal with unemployment in their own way, and who claim that they would do more to solve the problem if they were not interfered with. To both these lines of argument there is the ready reply that in 1909 there were only 600,000 out of 14,000,000 or 15,000,000 workers insured against unemployment, and because employers had failed to make provision for the remainder, the Government felt impelled to experiment with the scheme passed in 1911. Until 1920 some four-fifths of the work-people of the country were still without provision against unemployment, so that the State was obliged to step in and extend its unemployment scheme to include over 12 million work-people. Had the national scheme not been in operation when the depression began, it is generally agreed that ordered government would have been gravely jeopardized. Experience is conclusive on the point that employers of labour cannot be trusted to adopt voluntary measures, either to lessen the amount of unemployment or to lessen the suffering which results from it, by adopting the device of insurance. Few Governments of industrialized countries can to-day trust to the foresight or benevolence of employers to take care of their work-people during unemployment, whilst the workers in these countries are all demanding the greater security which comes from insurance through a Government scheme, or through a trade union scheme subsidized by the Government, and above all they demand their benefits as a right. They therefore insist that the scheme of unemployment

¹ *Social Administration*, by John J. Clarke.

insurance shall be such that their receipt of benefits shall be free from the stigma which attaches to Poor Law relief, or to the philanthropy of an individual employer. Unemployment insurance in one form or another, all criticism of details notwithstanding, has not been seriously challenged during the recent crisis.¹ Even during the height of the "Economy Campaign," when housing schemes and educational programmes were scrapped, unemployment insurance was hardly threatened.

Nor is this surprising. It has been the major factor in carrying the unemployed through an unprecedentedly protracted period of unemployment without forcing them into extremities of want. Starvation, either of the dramatic or even of the slow type, which is the consequence of insufficient food over a period, has not yet been permitted to any extent. There is real suffering, there is terrible hardship, there is overwhelming debt, and there is a drain on workmen's efficiency; but there seems to be but little evidence of actual starvation. Thus, as a result of a recent survey made of the effects of unemployment in East London, where unemployment is heavy, Mr. J. J. Mallon writes:—"Although unemployment on an unprecedented scale has continued for nearly two years, the personal distress arising from it in East London is less than would have been caused before the War by a dock-strike or a lock-out. The absence of distress is gratifying. It is accounted for by the savings that men and women accumulated out of the generous wages of the War period, the liberalized scale of allowances adopted by the Boards of Guardians and the benefits derivable from Unemployment Insurance." ■ It should, however, be noted that savings are now exhausted, that savings even in the form of furniture are being disposed of, and that Boards of Guardians, especially in areas occupied largely by unemployed workmen, are now themselves heavily in debt. The third year of unemployment threatens heavy human costs.

¹ Whitley Councils were allowed to languish, and a powerful onslaught was made on the Trade Boards and Employment Exchanges during the last two years, but hardly any serious objection was made to unemployment insurance.

■ *Unemployment in East London*: the Report of a Survey made from Toynbee Hall, p. 3.

CHAPTER IV

UNEMPLOYMENT INSURANCE BY INDUSTRY EXAMINED

THERE remains one line of criticism against the existing system of unemployment insurance which has not yet been examined, and which is supremely important because it provides the basis for the proposal known as insurance by industry.

WHY IT IS ADVOCATED

It is pointed out that at present good and bad risks are pooled together and that workmen and employers in trades with very different averages of unemployment are obliged to pay the same rate of contributions. It is contended that it is unfair to subject trades with a low unemployment rate, e.g. railway work, to the same burdens as trades that have a high percentage of unemployment, like ship-building. When the insurance trade contracted out of the general Act and commenced a scheme of its own it was possible to increase the scale of benefits and to eliminate contributions by employees altogether. It is true that this is likely to prove a very exceptional instance, but it illustrates very clearly the contention of those desiring that the whole system should be based on insurance by industry.¹

It may be agreed at once that a flat-rate contribution and the same scale of benefits for all insured people is always open to this criticism.² The other main argument in its

■ It is because the costs are likely to be low in the banking industry that one of the first plans of insurance by industry in the United States has been worked out for it. See *Journal Institute of Bankers*, U.S.A., May, 1922.

■ Thus in the case of health insurance certain occupations predispose those engaged in them to a higher sickness rate, and there-

favour is that it will tend to reduce the amount of unemployment.

Before examining the scheme suggested for giving effect to the proposal of insurance by industry, let us note how it developed and what support it is receiving.

The idea of industrial self-government has made headway within recent years both amongst employers and workmen, owing to a variety of causes, and unemployment insurance by industry, which embodies that idea with respect to one activity, has in consequence many supporters. Employers are reacting against the State controls imposed upon them during the War, whilst trade union leaders are fascinated by the guild socialist ideal. The comparative failure of the Whitley Councils, which resulted from the attempt to establish self-government in industry in a form acceptable to employers and work-people, warns us, however, not to accept what may prove to be a passing fancy as a settled policy.

The proposal that each industry should be made to bear the costs of unemployment in that industry has been put into operation for a short time in the Lancashire cotton industry, and has been attempted by a few establishments for their own work-people. It has, however, been discussed, as we have observed, by a number of industries, and the opinion of trade unionists has been taken on it.¹

THE LANCASHIRE COTTON INDUSTRY SCHEME

During the War there was put into operation an unemployment insurance scheme on an industrial basis in the Lancashire cotton industry. The peculiar circumstances of the War are shown by the two facts that the employers paid the whole of the costs of the scheme and agreed to the trade unions administering it. The Secretary of the Cotton Control Board writes: "The money was raised, every penny of it, from the employers in the industry itself; the Cotton Control Board laid down certain rules and regula-

fore flat-rate contributions and benefits are not strictly equitable. But in spite of this consideration the practice of insurance administrators always is to distribute risks as widely as possible.

¹ The Amalgamated Clothing Workers of America at their annual Convention in Chicago in May of this year authorized the General Executive Board to work out a plan of unemployment insurance which would place the burden of unemployment upon the industry instead of on the worker.

tions as to the scale of benefits, and the conditions entitling a worker to receive it ; and the task of applying those rules and paying the money out was entrusted to the trade unions."¹ Another factor which tended to make the scheme very popular in its early days was the adoption of the " rota " system for meeting unemployment. Employers who had not sufficient work to keep their staffs regularly employed, not only worked them short time, but rotated employment so that only a proportion, say four-fifths of the staff, were actually at work at a time. In this case four workmen out of five would be always employed, and " play off " for one in every five weeks. Thus although the maximum benefits for men were 30s. and for women 18s., the fifth week was generally regarded as a holiday. This method of meeting unemployment is as a rule difficult and costly to organize, and in certain industries quite impossible, but it was technically possible in the cotton industry. Under War conditions, however, it was open to objection, and was abolished because it was thought to impede the movement of cotton operatives into munition work.²

It was largely owing to the success of this scheme, which it must be insisted was possible in that form only as a result of the circumstances of the War—it has not been continued since ³—that the proposal known as " insurance by industry " has gained a following.

THE GUILDS

The Guilds which have been initiated in recent years are organized on a basis which provides for employment or maintenance. The Building Guild, the Furnishing Guild, and the Clothiers' Guild contract with their employees on this basis. But these are little more than experiments as yet.⁴ The view that an employer should give his workmen continuous employment or provide maintenance for those dismissed because of lack of work is indeed slowly gaining

¹ " Unemployment," by H. D. Henderson, in *Essays in Liberalism*.

■ During a period of depression this objection does not arise, and the rota system of meeting lack of work ought to be employed as widely as possible.

■ Nor was it renewed as a recognized special scheme.

■ The failure of this latest form of producer's co-operation has now been announced.

ground, not only amongst employees, but also amongst employers.

TRADE UNION OPINION

Opinion in the Trade Union Movement has been recently taken upon the desirability of unemployment insurance by industry. The National Joint Council representing the General Council of the Trades Union Congress, the Executive Committee of the Labour Party, and the Parliamentary Labour Party, report that :

43 unions,	representing	1,252,600 members,	favour it.
21 ,,	,,	2,670,900 members,	are unfavourable
			to it.
and 17 ,,	,,	978,900,	were non-committal.
<hr/>			
4,902,400			

Of those who replied to the inquiry about 25 per cent. only were in favour of unemployment insurance by industry. Some of the largest unions were against it, including the miners, the railwaymen, the foundry workers, and the general works. Amongst those who favoured it were the cotton and wool operatives, the printers, the iron and steel workers, the distributive workers, the clerks, the Post Office workers, the journalists, and the Scottish farm servants.

Recently opinion amongst the trade unions has hardened against the proposal. This is indicated by recent speeches in the House of Commons by Mr. Ramsay Macdonald, Mr. Philip Snowden, and Mr. J. R. Clynes.

It is however evident that this proposal has a considerable body of support and is likely to be discussed a great deal in the near future.

The recent proposal of the Geddes Committee that each industry should "look after its own unemployed," and its consideration by the Ministry of Labour, has as its primary object the reduction of State expenditure rather than the development of a sounder scheme and more efficient administration of unemployment insurance. But they indicate clearly that the Government is not opposed to lending its authority to it.¹

¹ Mr. Bonar Law, in a speech at Glasgow on November 13, said that "he sincerely hoped that it would be possible to make further

DIFFERENT MEANINGS OF "INSURANCE BY INDUSTRY"

Unfortunately it is not quite clear what is meant by the proposal of unemployment insurance by industry. Its kernel seems to be that no industry should pay more in respect of unemployment insurance than its unemployed receive. But it is not made clear whether industries are ready to pay or whether they should be made to pay the whole of the costs of unemployment insurance and to forego the Government's contribution towards them. The Right Hon. A. C. McCurdy, K.C., M.P., whilst advocating "insurance by industry," contemplates the continuation of the State subsidy. Nor is it quite evident whether each industry will have its own administrative machinery, a system of employment exchanges on an industrial basis, or whether the national system of employment exchanges is to continue. The proposal may also be interpreted to mean that each industry will finance its own unemployed as part of a national scheme with different rates of contribution for different industries, or again each industry may finance an autonomous scheme.¹

Assuming, however, that these difficulties are met, there remains the usual play for advantage by employers and workmen in the industry. Thus the Trades Unions Congress in September, 1920, urged that "industry, and not the workers, should be made responsible for unemployment," ■

progress in the direction of making unemployment insurance a part of the trade burden of industry." See also letter by Sir Montagu Barlow in *The Times*, November 6, and memorandum and covering letter by Sir Montagu Barlow in *The Times*, November 30.

■ Trade union unemployment insurance is organized by trade or by industry. Similarly, in all countries where the Ghent system is adopted (see Appendix I) unemployment insurance is organized by industries for all who have voluntarily joined trade unions. As used in Great Britain the expression "insurance by industry" implies the compulsory insurance of all wage-earners (perhaps excluding agricultural labourers and domestic servants) who are subject to a considerable amount of unemployment. In the United States "insurance by industry" on the lines advocated by Professor Commons (see Appendix II) involves insurance by employers, who are to bear the whole burden in a Mutual Association for Employers, and not in a State fund. Another form of insurance by industry is that organized by individual establishments for their employees.

■ "The most recent theory of all treats unemployment as a purely industrial risk to be borne solely by the employer in the same

whilst it is clear that employers who are supporting the idea do not contemplate such financing of the scheme.¹ Nor is it clear that employers and work-people will have to share responsibility for the administration of the scheme.

Some advocates of the idea, not knowing that it is possible to contract out of the British State scheme, are advocating what it provides for, the power of trades who satisfy specified conditions to start a scheme of their own.

It is perhaps because different content is given to the phrase "insurance by industry" that it is proving so popular with advocates usually opposed to one another.² The moment, then, an attempt is made to give full effect to one conception, those advocating an alternative idea will oppose it. It is certain that it is impossible to frame any scheme which can give effect to all these conflicting views. There is a real divergence of interest involved, and the motives of the groups all crying out for insurance by industry are in open and avowed opposition. It is therefore not surprising that the Bill embodying this idea proposed by the General Federation of Trade Unions has met with considerable criticism by many of those who are advocating the principle it was designed to embody.

THE GENERAL FEDERATION OF TRADE UNIONS BILL

Let us note its principal provisions. These are :—

(a) Unemployment insurance on the basis of industry.
 (b) Contributions in the form of a levy on employers, the levy being a percentage of wages, the percentage to be the same for each employer and to be fixed on an actuarial basis. The employer is to recover one-fifth of the contribution from the employee. The State is to contribute one-fifth of the total amount paid out in benefits during the year.

(c) Administration is to be by a Board of Administrators for each industry (or part of industry) consisting of em-

way, for example, as industrial accident." *International Labour Review*, Vol. VI. No. 3, p. 365.

¹ Mr. G. D. H. Cole writes : "Labour has always been against contributory insurance, and, if it is unjust to make the worker contribute to a State scheme, it is equally unjust to exact from him contributions to a scheme on an industrial basis," (*The New Leader*, December 8, 1922).

■ Mr. G. D. H. Cole, Mr. S. G. Hobson, Lord Askwith, and Sir Lynden Macassey all support it.

employers' representatives and trade union representatives in equal proportions.

(d) A National Committee is to be set up to adjudicate in demarcation, difficulties, etc.

(e) Any Administrative Board having a surplus at the end of a year is to pay over a percentage to a Central Contingencies Fund out of which grants may be made to Boards showing a deficit.

Other proposals for giving effect to the principle of unemployment insurance by industry have been suggested, but an examination of this Bill will show up their typical weaknesses ; but before doing so let us examine the case for it.

THE CASE FOR INSURANCE BY INDUSTRY

It is argued that it is unfair to subject trades with little unemployment to the same charges for benefits as fluctuating trades. But if pressed too far that argument cuts right across the device of insurance, whose very essence is the pooling of good and bad risks. If a distinction is drawn between different industries, it might be asked, Why not distinguish also between the risks of establishments¹ in each industry? It is not unusual for establishments in the same industry to have greater differences in their unemployment rate than exist between different industries. A stickler after consistency might even ask to apply different rates of contributions to different departments, and even to individuals,² because they are less liable to unemployment. But the more satisfactory answer to this criticism is that the Government scheme actually meets the case of unfairness which the trades with a small percentage of unemployment may level against it. The State subsidy to the scheme, amounting to about one-quarter of its total costs, makes it

■ Mr. S. Pascall points out that in exploring the possibility of a contracting-out scheme for the confectionery trade it was found that the " good " firms would be penalized for the " bad " ones, and it was found impossible to devise a scheme to meet the difficulty.

■ This is indeed effected by the clauses in the Act which provide that workmen who had not drawn from the unemployment fund the amount which they had themselves contributed, were entitled to a rebate at the age of 60 of that amount which they had not exhausted. Sir W. H. Beveridge has actually proposed a scheme which " differentiates between industries and between employers in the same industry in respect of the regularity or irregularity of work. (*Manchester Guardian Commercial*, February 1, 1923.)

worth while for most of them to pool their risks with trades subject to a higher percentage of unemployment. By this means the benefits which the former may receive are as a rule at least equal to the amount which their unassisted contributions could buy for themselves ; ¹ while the latter gain in their benefits the full measure of the Government subsidy. It has been pointed out that a flat rate of contributions and benefits to those engaged in industries with a high and in industries with a low percentage of unemployment, does in fact involve differentiation in favour of those engaged in the more fluctuating occupation. " This differentiation would push work-people into these occupations beyond the point at which the value of the marginal net product there is equal to what it is in other occupations." ■ It may, however, be argued that the more fluctuating trades result in a considerable amount of unemployment which in turn results in an increase in the demands for relief from the Guardians. The costs of the subsidy to these occupations must be balanced against the cost of a body of unemployed seeking public relief.³

It is argued also that if insurance is organized by industry it will be possible to vary the amounts of benefits so that they should bear some relation to the wage normally earned by the unemployed workman. We have seen that this is desirable and can be achieved under the existing scheme. In view of the great variations in wage within each industry there is no reason to believe that a scheme of insurance by industry could achieve this object any better than the scheme now in operation modified to produce it.

Thus on this preliminary examination of the concept of insurance by industry we find that it is used with very different meanings, and that the case in its favour is not very strong. Let us now inquire into the case against the proposal.

¹ Administrative costs are also cheaper by being part of ■ national scheme than they would be if each industrial scheme had its own machinery.

² *Economics of Welfare*, p. 910.

■ It is interesting to note that in none of the three schemes outlined in the Government Memorandum on " Insurance by Industries " (see *The Times*, November 30, 1922) is it proposed to allow the fluctuating trades to bear the full brunt of their high unemployment nor to give those with a low percentage of unemployment the full advantage of that fact.

It is argued by some advocates of this proposal that it will give employers a definite incentive to cut down the amount of unemployment in their trades to a minimum. If then they must maintain the unemployed it will pay them to retain their workmen and produce at the lowest prices, rather than restrict production and keep prices high. It follows from this view that if employers pay the whole of the cost, instead of sharing it with their employees and with the State, the incentive to cut down employment will be greatest, but few employers would favour it for that reason. Nor is it sufficiently realized that this inducement would not be very direct and immediate to the individual employer. Its effect would be indirect and would work through the proposed insurance fund for the industry. It may, however, be conceded that this point is valid in a few cases, but it can have little effect in meeting the situation arising from the cyclical depression. Under those circumstances, when buyers are nervous no drop in price which can be achieved by these means will as a rule suffice to induce them to buy.

THE CASE AGAINST INSURANCE BY INDUSTRY DIFFICULTIES INVOLVED

Some of the difficulties involved in organizing unemployment insurance by industry will be realized by inquiring into the different operations carried on in factories.

An investigation into a jam and jelly firm, reveals that comparatively few people are engaged in the operation of jam-boiling. The firm grow most of their own fruits and raise cattle and poultry to obtain fresh milk and fresh eggs. They prepare their fruits, many of which are canned and bottled, and boil their jams. Most of the boxes and cans used, and even the boilers in which the jam is boiled, are manufactured on the premises ; the latter are silver-lined by the electrical engineers who are constantly employed. The saw-milling and engineering shops are part of the plant. Building has been taking place steadily for years, so that a staff of bricklayers, carpenters, and moulders are always kept busy. A considerable number of clerks, typists, and accountants are employed. Carters of all kinds, with motor and horse lorries, are transporting the finished goods. Nor can one forget the catering staff, consisting of cooks, wait-

resses, and washers-up, who are employed, nor the welfare nurses who look after the health of the work-girls.

No mention has been made of the staff employed in pea-picking, preparing coffee essence, herb and vegetable growing, and in running the agricultural tractors.

The employees of the factory are covered by three trade boards and a dozen trade unions. A variety of activities is characteristic of most establishments.

How then are we to define an industry? A cotton mill will have attached to it, to-day, carmen who may belong to the Transport Workers' Union, builders belonging to the Building Union, engineers belonging to the Engineering Workers' Union, and general labourers belonging to the General Workers' Union, clerks belonging to the Clerks' Union, and workers in a number of other types of unions.

To which industry do those engaged in these auxiliary trades belong?

This difficulty of defining an industry is one constantly arising. Thus one special scheme for a particular large industry that wished to enrol itself under section 18 of the Unemployment Insurance Act broke down because the industry could not define itself. Very great difficulties have been experienced in defining trades under the Trade Boards Act. Thus, it is difficult to decide whether those who make hat leather linings should be included in the hat or in the leather trades. Should those who manufacture flavouring essences be included under confectioners, chemical manufacturers, or jam makers?

Trade Boards do not attempt to enumerate which groups of workmen shall be given a certain rate of wage. Instead they first legislate for all workers, who are covered under some comprehensive definition and then deal with the special groups.

Trades have been defined (1) by inclusion, (2) by exclusion, with particular reference to (a) the article made, (b) the process of manufacture, (c) the raw material used, and (d) the consumer. Good examples of these are: (a) The Coffin Furniture and Cerement Making Trade, (b) the Stamped or Pressed Metal Wares Trade, (c) the Ostrich and Fancy Feather and Artificial Flower Trade, and (d) the Dressmaking and Women's Light Clothing Trade. In this case the definition is limited by the words, "worn

by women and girls, or by children without distinction of sex." Articles of the same nature when "worn by male persons" are included in the Shirtmaking Trade. In many trades the definition will have particular reference to two, or even three, of these modes of classification. Frequently, a couple of years pass in the preliminary investigation of what constitutes a given trade, and yet when this is decided with the greatest care, after consultation with all the parties affected, anomalous cases crop up for years after. When the Unemployment Insurance Act of 1911 applied to only seven trades, some two thousand demarcation cases were decided by the Umpire. It would of course be possible in a similar manner to register doubtful cases and make a somewhat arbitrary decision as to which category they were to come under. Thus it is suggested that those engaged in Bradford in making piece goods from cotton weft and cotton warp, which are called woollen because they are made in Bradford, should be registered as wool-workers. But there would be grave difficulties to be overcome. Moreover, so long as trade unionism is not organized industrially,¹ the definition of industries would be accompanied by constant friction with the unions. Advocates of insurance by industry fail to recognize also that the massing together of men who are not in the same union, and have little in common, will result in the loss of that very unity of feeling which they desire.

It is in many cases as difficult to discover to what industry a man belongs as it is to define the industry. There is, therefore, very considerable difficulty in defining a man's industry. We cannot define it by what he is doing at a given moment, since he may be passing from one industry to another. He may be an agricultural labourer in the summer and a gas-worker or dock labourer in the winter.

We cannot define it by the type of factory he is working for. Thus builders and joiners may be attached first, say, to a textile factory, and then to an iron foundry. In a similar manner, general labourers, transport workers, and engineers may shift from one type of factory to another.

Nor can we define it by the district in which the factory is located, since there is no industry which is confined to only

¹ Trade unions are in many cases organized on an occupational basis, and in other cases on an industrial basis.

one area. How are we to deal with the floating fringe of work-people who drift from one firm to another, from one industry to another and from one district to another? Again, when a general labourer who has had perhaps three types of jobs within the six months preceding his unemployment finds himself without work, which industry is to pay his benefit? And, similarly, with those engaged in other auxiliary trades? In the case of workmen suffering from industrial diseases compensation is provided collectively by the employers who employed them within the twelve months preceding incapacity. Can something similar be arranged in the case of unemployment, or must all workmen who shift frequently from one type of job to another and from one type of factory to another be provided for in a residuum scheme?

Thus, even if it were found possible to define industries and to decide to which workmen belonged, there would still be a considerable residue of labour unassignable to any particular industry, which would have to be classed together.

Another difficulty arises from the fact that the earmarking of men as belonging to different industries for purposes of unemployment insurance may tend to reduce the mobility of labour. This would be wholly undesirable. Indeed it would tend to increase the amount of unemployment, since it would hold back workmen from trades which were slack from finding work in the busy trades. Even where this did not result, great difficulty would be involved in having workers passing from one industry with its special insurance fund to another with perhaps an entirely different system of insurance. The calculation and transfer of reserves in respect of each workman ¹ will involve such an amount of work that foremen will be less apt to take workmen on from some other industry. This may not be altogether bad, but the evil might easily outrun its good effects.

The fourth difficulty involved in the scheme proposed by the General Federation of Trade Unions (and opposed, be it noted, by the much larger body, the Trades Union Congress), arises from the clumsy and costly machinery proposed for the administration of the scheme. It would be costly because it would be specially set up for the sole purpose of administering unemployment insurance. It would consist

¹ Such transfers do, however, take place from one form of Approved Society, under the Health Insurance Act, to another.

of local, district, industrial and national bodies with staffs and advisers. The employment exchange system would be abolished only to be set up in a new and more complicated form.

The devising of suitable administrative machinery is indeed the greatest difficulty in the way of unemployment insurance by industry. This machinery must be able to achieve two tasks. It must be able to disburse benefits, a comparatively easy task. But it must also be ready to test the *bona fides* of applicants for benefits. If a workman, say a cotton-spinner, claims benefit, the machinery must be there to discover whether he is really unemployed and whether he cannot find a suitable job elsewhere. Now since the proposal of insurance by industry aims to relieve industry of "the vicious domination of the State employment exchanges," the machinery to take its place must be either the existing trade unions with their facilities for finding employment greatly improved, or a new system of employment exchanges for each industry.¹

Let us examine both possibilities. Is it likely that employers will hand over to the unions thousands and perhaps millions of pounds for disbursement, without demanding a very detailed control over them? It is doubtless true, as one Labour leader suggests, that "the trade unions would be willing to carry on the administration of unemployment insurance without charge to the State, and the employment exchange could be abolished." Before agreeing to this proposal employers are likely to demand such control over their finances that the trade unions would rather prefer unemployment insurance to be administered by a more impartial body. Imagine some difficulties that would arise. When a workman is dismissed by an employer for bad work or for coming to work late, or for conduct which he regards as truculent, will the trade union official pay him his unem-

¹ It is occasionally suggested that the Post Office, the Friendly Society, or the Chamber of Commerce can be adapted for use for this purpose. It is true they might be used as paying-out agencies, but could they provide an adequate test of unemployment? They cannot do this with their present knowledge and organization. But they could doubtless gain that knowledge and perfect their organization for this purpose by building up a new system of employment exchanges of their own devising.

ployment benefit? Will not cases of industrial dispute, which lead to grave and frequently almost insoluble problems with a State scheme and administration by State officials whose personal interests are not involved, lead to the complete breakdown of the scheme? Would the union official decide what is "suitable employment," what work an unemployed workman might refuse and still draw benefits? It is true that trade unions claim that the regulation of employment is one of their functions and the control of the labour market one of their aims. In certain trades, e.g. the printing trades, it has even been achieved, but it is certain that employers would oppose this proposal tooth and nail if any Parliament attempted to provide it by legislation, or if workers' representatives brought it forward before Joint Industrial Councils.

The only other type of machinery which can provide a test of unemployment is the employment exchange. If, however, it is decided that each industry shall have its own scheme of employment exchanges, is it not a fact that in certain towns there may be six or more groups of exchanges? Thus, in Leicester, where there are hosiery, shoe-making: and engineering establishments, railway workers, builders, and shop assistants of many kinds, at least six groups of agencies would be required for disbursing unemployment benefit. Moreover, since every exchange would be doing less work, the costs for the task accomplished would be very much greater than under a common employment exchange for all trades.

If such exchanges were established for each industry, the Government system of exchanges would still be necessary for the common pool of unskilled labour. They would be necessary for those grades of labour which shift from trade to trade. Moreover, if a trade scheme failed, the people involved could fall back on the Government exchanges. It would be necessary also to provide information as to the general demand for and supply of labour, and for carrying out the policy of decasualization of labour, which, it might be noted, has not hitherto been carried out consistently.

The administrative difficulties in the way of organizing unemployment insurance by industry are so very great that only the most conclusive evidence of its very real advantages over the Government scheme would justify the effort to overcome them.

CRITICISMS OF THE PROPOSAL

In addition to these administrative difficulties, it should be noted that there are definite objections to the adoption of the proposal of insurance by industry just now.

No such scheme could be introduced at a time like this when claims for benefit are so persistent that they are certain to exceed the normal sources of income.¹ If attempted, it could continue only by raising loans. The existing Act came into operation two years ago, and no one asserts that any other scheme could have weathered the storm of the after-war depression better. Surely a longer period of trial in times of more normal trade is necessary before a fundamental alteration should be considered. But even if exceptional measures were taken to deal with the existing situation, would it be possible to work out a scheme of insurance by industry for normal times? The answer to this question is in the negative because there is no exact knowledge as to the amount of unemployment in the different industries, and this, it may be confidently asserted, cannot be obtained until the present scheme has been administered for a full trade cycle in normal times.

It is likely that the idea of insurance by industry when calculated on the basis of good and bad times will be found to impose such burdens that it will become less popular. It is significant that the proposal obtained greater support during the booming period of trade than it does to-day. When trade is good, both employers and workmen are apt to forget that an actuarially sound scheme of unemployment insurance must provide for the costs of benefits over a long period. The building and engineering trades in 1919 seemed to forget that their total volume of unemployment was represented by an average percentage of about ten. Taking the whole of industry, the average unemployment percentage is not more than about six, and insurance schemes, whether by separate industries or organized as they are to-day, must provide for that.

A great amount of compulsion will be involved in introducing satisfactory schemes for each industry. We have seen that arbitrary decisions will have to be made assigning

¹ If there had been a scheme for the coal or engineering industry in existence, how would it have fared?

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individuals to some specific trade or other. The Government would have to decide on proposed industrial schemes to see that they are actuarially sound (or, perhaps, demand a deposit, as is done in the case of insurance companies, who must have £20,000 for this purpose); it would have to see to it that there was some proper machinery for finding work for unemployed workmen; it would have to make sure that both employers and employed were to have a proper share in the administration of the scheme.¹

INSURANCE IN THE ENGINEERING INDUSTRY

Let us note briefly the difficulties involved and the objections to organizing unemployment insurance with reference to one or two industries, say the engineering and the woollen industries.

It is clear that a great national industrial survey would have to be undertaken to help define which processes would be covered by different trades. Engineering² is generally taken to cover the processes of manufacturing goods from the metals and semi-manufactured products turned out in iron and steel works. These are taken to include :—

(1) General engineering : machine-making, shipbuilding, the manufacture of armaments, munitions, locomotive engines, tools, and a variety of implements and accessories.

(2) Electrical engineering.

(3) Vehicle building, construction of motors, cycles, etc.

It should be noted that shipbuilding necessitates the work of carpenters, joiners, painters, boiler-makers, engineers, electricians, builders, and of a host of other trades,

¹ Mr. Clynes, speaking in opposition to the General Federation of Trade Unions Bill introduced by Lieut.-Colonel John Ward, pointed out that if given effect it would set up not one scheme or plan for dealing with unemployment, but a thousand schemes : " Under such a great number of schemes as the Bill would involve, you could not have any saving of expense, you would merely have transference of it ; and Lieut.-Colonel Ward, if he proposes to throw upon the workshops, upon the employers and trade union organizations, the cost of this administration, will find that both of them will reject it. We say that unemployment ought to be, even more than it is, a State responsibility, and that in the acceptance of that responsibility, the State should call upon the industries to bear a real and substantial share of the financial and other obligations which have to be incurred in connection with these schemes of relief."

² *Labour and Capital in the Engineering Trades*, Ch. I, Labour Research Department.

besides that of engineers. Similarly, vehicle-building requires wood-workers, wheelwrights, leather-workers, etc.

Will the shipping industry—the employers and the employees—agree that all engaged in shipbuilding shall be included as engineers? Similarly with vehicle-building. This particular type of difficulty has recently produced serious controversy in the case of those engaged in the construction and repair of locomotives in the railway engineering shops. Those employed in these works might be said to be working on engineering processes, but for certain purposes they are rather part of the railway or transport industry.

The engineering industry, like most other large industries, will have associated with it a body of carters, general labourers, clerks and other types of employees, some of whom may be attached to it all their lives, and others who will drift from one industry to another and will be attached to this one only temporarily. The painter and wood-worker may be engaged on an urban house as well as on a ship's cabin, whilst the electrician may be wiring a mansion, and the shipping clerk become a banking clerk.

But these problems of overlapping of certain sections of the engineering trades with other trades will arise only after the main task of deciding what processes are included in the engineering trades has been settled.

Thus it may be asked, should boiler-makers be included? Should plumbers? What is the position of iron founders? Some again would include and others would exclude vehicle builders. Now whatever principle be used for deciding who should be covered by the engineering industry, and even after arbitrary decisions have been made, it is certain that there will be a fringe of anomalous cases.

Another series of difficulties will arise from the fact that engineers are employed as engineers in a series of miscellaneous occupations. Thus they will be found in laundries, textile mills, in wood-works, and indeed wherever machinery is of any considerable importance. In certain cases these engineers will lose their identity as engineers and become known as laundry workers, textile workers, etc.

This complexity of the industry and the flux of those in it is increased by the constant shifting of wages. When wages are comparatively high in the engineering industry

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all who can possibly claim membership in it do so. When, however, wages in this industry are comparatively low, as they are to-day, even engineers proper are tempted to claim membership of another occupation.

These difficulties of definition will not be made the more easy by the nature of the organization of the employers and of the employees in the industry. It is true that most firms are included in the very rich and powerful Engineering Employers' Federation, and being unified can concentrate on a definite policy with respect to the question of the organization of the engineering industry. But the workers covered are divided into a host of unions. Of over one million included in the engineering trades, some 400,000 are members of the Amalgamated Engineering Union and nearly twice that number are organized in forty-seven different unions. The nature of these unions, the Engineering and Shipbuilding Trades Federation, the National Federation of Foundry Trades and the National Federation of General Workers shows clearly that not only have the workers been unable to unify their organization, but that they have certain craft interests and prejudices which would make them oppose the organization of a system of unemployment insurance for the engineering industry as a whole.¹

¹ There are to-day serious controversies and conflicts among the various sections of those who might be classed as engineers. These are not exceptional, but rather a characteristic of the relation of the different groups of workmen in most industries. But the process of amalgamation is steadily continuing, although its progress is not as fast as is sometimes suggested. The total number of trade unions is still greater than it was before the war. More new unions have been created than old ones have been absorbed. In 1920 the total trade union membership stood at about eight and a half millions and to-day in consequence of the depression it stands somewhere below six million. It is noteworthy that the twenty largest unions have a membership of about three million members, i.e. of half the total strength of Trade Unionism in all industries.

It will be observed that nothing has been said here against the desirability of developing a more organic and unified sense amongst industries as a whole, nor against the proposal which frequently accompanies its advocacy, the necessity of giving those employed in the industries more control of the conditions of their employment. But these developments should not be dragged in through the back door under the cloak of improving our system of unemployment insurance.

(The subject of Control in Industry is treated interestingly in a

68 INSURANCE BY INDUSTRY EXAMINED

It is frequently assumed that because certain occupations are called by the same name that there is therefore an identity or at least community of interests. Thus it is assumed that the whole of the engineering trade is subject to the same amount of unemployment, and that the same policy with respect to unemployment insurance will be best for the whole industry. This view is entirely mistaken, as will be seen from an examination of the statistics giving the volume of *exports*,¹ the weight of which is significant as indicating the amount of unemployment, for three years after the war. These may be compared with the figures for 1913.

STEAM ENGINES (LOCOMOTIVES AND OTHERS)

	Weight : tons.
1913	141,685
1919	52,781
1920	73,694
1921	77,458

TEXTILE MACHINERY

	Weight : tons.
1913	178,074
1919	65,920
1920	63,614
1921	156,995

ELECTRICAL MACHINERY

	Weight : tons.
1913	26,860
1919	11,728
1920	11,900
1921	18,267

AGRICULTURAL MACHINERY

	Weight : tons.
1913	73,498
1919	11,817
1920	10,712
1921	5,347

lecture by Mr. R. H. Tawney on "Recent Thought on the Government of Industry" in a volume of addresses published under the title of "Labour and Industry," 1920).

■ No statistics are available of sales in the home market. Previous to the war more than half of the total engineering products were exported, and less than half was sold in the home markets.

These figures show that whilst the foreign demand for British steam engines increased slightly between 1920 and 1921, the demand for electrical machinery rose by over 50 per cent. in the same period, and the demand for textile machinery more than doubled. On the other hand there was a drop to only one-half the amount of agricultural machinery which was bought from Great Britain for export abroad during the previous year. Surely, it is evident that the policy pursued by those engaged in these industries did not and indeed could not by themselves fundamentally lessen the amount of unemployment in them. What could they do to stimulate the demand for textile machinery from India, China, and Japan? But important orders from the east kept this portion of the engineering industry busy. How could they by themselves radically alter the situation in Russia and Germany, and yet the enormous fall in the demand for agricultural machinery is very largely due to conditions in those countries.¹

INSURANCE IN THE WOOLLEN INDUSTRY

Assuming that the principle of insurance by industry were adopted, it is uncertain what would be included in the woollen trade. Would it be made to include three branches, the manufacture of the heavy woollens, consisting of the weaving of carpets, the light woollens consisting of the weaving of cloths, and the hosiery trade consisting of the knitting of goods, or would it include only the two former? Either decision will be regarded as arbitrary. As a rule men are employed on the looms for the manufacture of heavy woollens, and women on the light looms for the manufacture of cloths. Occasionally a strong woman might do the former type of work. But these two parts of the trade are absolutely distinct from the hosiery trade. A man or woman trained in one would be entirely lost in the other trade. These trades are carried on in different parts of the country: the heavy woollens in Scotland and Yorkshire, the light woollens in Yorkshire round Bradford, and the hosiery trades in the Midlands round Nottingham and Leicester. Moreover they are all subject to varying

¹ "Countries in Europe" took 47,853 tons in 1913 (Russia 26,729 tons; Germany 7,817 tons); while all Europe in 1921 took only 2,007 tons.

demands for their products. Great demand for knitted goods might exist at the same time that there is serious unemployment in the woollen trades of the North.

One of the first questions to be settled would have to be : shall the industry of the country be divided into a comparatively small number of large groupings, say about twenty, or should it be divided into a hundred or more smaller ones ? In the former case workmen and employers would be thrown into groups, whose trades had little connexion with one another and whose average rates of unemployment would be different. Nor would the employers nor the employees of such groups have traditions, organization or interests in common. In the latter case there would have to be established a very large number of special insurance funds. Their institution would be a costly and difficult task and their administration very expensive. Thus in both cases we are confronted with the likelihood of administrative difficulties of a very serious nature.

FOUR TESTS OF SCHEMES OF UNEMPLOYMENT INSURANCE

In spite of the difficulties involved in instituting unemployment insurance by industry, and in the face of these criticisms of the proposal, the enthusiast for the change might argue that the former will be overcome once they are faced, and that valid criticisms will apply to any new proposal, but that it is to be preferred to the State scheme. We are therefore driven to lay down tests by which the State scheme can be compared with a scheme of insurance by industry. Two sets of tests may be applied, one set dealing with the immediate effects on the reduction of unemployment, the administrative costs of the service, the security of the funds, and the promptness of payment to those entitled to benefits, and the other set dealing with the effects of these schemes on the relations of employers and employees.

CAN INDUSTRIES SOLVE THEIR UNEMPLOYMENT PROBLEM ?

It is frequently stated that unemployment could be kept down in proportion to the incentive each industry is given in removing its causes. It is argued that the ingenuity of employers could be stimulated to prevent, or at least substantially reduce its amount, by giving them a pecuniary interest to do so, and that unemployment insurance could

be used in this direction by organizing it on an industrial basis, and providing for premiums varying with the risk in the industry. This is not the case, it is contended, when there is a comprehensive system which consolidates all risks and establishes a flat-rate contribution for all industries.

This assertion needs to be carefully analysed and examined, since it is now being repeated as if it were axiomatic. First, it implies that those engaged in industry can prevent unemployment in it, or at least reduce its severity; secondly, it implies that to-day they have no financial interest in preventing it; thirdly, that by giving them a pecuniary interest, unemployment would be reduced; fourthly, that this is a matter in which the industry acting as a unit can achieve this object best.

First, the great causes of unemployment are quite beyond the control of a single industry. Cyclical fluctuations in industrial activity, whatever their causes, are beyond the scope of a single industry. Nor in these days can we forget the effects of catastrophes in distant countries, wars, political crises, the failure of harvests. The sphere over which an improved organization of an individual industry can prevent unemployment in general is very limited.¹

Secondly, it is untrue that the employer to-day has no financial interest in preventing unemployment. As a rule unemployment means for the employer a wasting plant, the loss of overhead expenses, frequently, heavy losses on accumulated stocks, and perhaps bankruptcy. Indeed, no incentive that the Legislature is likely to provide, or Joint Industrial Councils can institute, is likely to provide a pecuniary interest equal to even a small fraction of that already operating to make the employer desire to keep his staff regularly employed. It is true that if he needs five hundred work-people it does not matter to him which of equally efficient work-people he employs. But it is one of his chief aims as a business man to keep that number employed, and if he is really anxious to run his establishment very efficiently, to keep the same staff regularly employed.

¹ Improved organization might be expected in the employment of casual labour, and unemployment might be reduced in a few industries where custom and fashion, as distinct from climate, are its causes.

BUSINESS FAILURES

The following figures show the number of business failures in six European and two American countries for each year since 1913.

AVERAGE NUMBER OF BANKRUPTCIES PER MONTH FROM 1913
TO 1922

	Ger- many.	Great Britain.	Nor- way.	Nether- lands.	Sweden.	Switzer- land.	Canada.	U.S.A.
1913 .	815	5,769	33	152	317	—	152	1,213
1914 .	654	4,643	33	123	295	49	241	1,397
1915 .	379	4,031	32	115	295	56	218	1,586
1916 .	188	2,607	13	86	200	35	148	1,375
1917 .	102	1,701	8	74	131	22	92	1,085
1918 .	68	826	9	79	101	22	68	778
1919 .	83	910	16	91	175	29	52	460
1920 .	109	2,016	32	127	196	36	81	716
1921 .	257	4,840	88	195	432	56	193	1,668
Jan. 1922	140	559	89	209	509	77	348	2,705
Feb. 1922	123	550	78	230	398	73	290	2,090

War-time prosperity is indicated by a reduction in the number of failures in all the European countries. In the two American countries the phenomenon did not arise until 1916. In 1918 the number of bankruptcies in the six European countries was only one-fifth of that before the War. In 1919 and in 1920 the number was less than in 1913. But in 1921 and in 1922 the number of bankruptcies increased enormously. Special conditions in Germany make her a marked exception to the general rule. Thus, as we should expect, the number of bankruptcies is greatest when the number of unemployed is greatest. It is a matter of common knowledge that when hundreds of business firms are precipitated into bankruptcy thousands are losing money and tens of thousands are making no profits. Both unemployment and bankruptcies are due

■ Including Deeds of Arrangement and Receiving Orders. H.C. 236/1921. In the first eight months of 1922 there was a larger number of business failures in Great Britain, as shown by the total number of Deeds of Arrangement and Receiving Orders, than in the whole of 1921.

to the same common cause, the fluctuation in industrial activity. The employer has the greatest interest in saving himself from bankruptcy and the workmen from unemployment.

Thirdly, we have already seen that the pecuniary inducements offered to employers by the 1911 Act to keep their work-people regularly employed had so little effect that they were withdrawn. Now that the amount spent in unemployment insurance is more, it is conceivable that greater pecuniary inducements could be offered to employers to bother about this matter. But there is little ground for expecting a direct effect in the reduction of unemployment as a result of such rebates. When business is bad employers pay attention to economies. But when it revives this slight money consideration is likely to be ignored.

These *a priori* considerations are reinforced by a reference to experience with insurance against industrial accidents in this country. Here, individual employers who are members of mutual associations for administering workmen's compensation insurance do not seem to have exerted much effort to reduce the number of industrial accidents. Most employers are insured against this liability in private insurance companies which have shown very little interest in the "safety first" movement for reducing accidents. In view of the opinion of H.M. Chief Inspector of Factories that three-fourths of these are preventable, it is clear that neither the claims of humanity nor pecuniary inducement can overcome the apparent indifference of employers. Why expect that it will be substantially otherwise in the case of unemployment?

Advocates of insurance by industry forget that insurance tends to develop a certain indifference towards the emergency. The employer pays his contributions to the fund of which perhaps thousands or tens of thousands of other employers are members, and he does not feel that any special care or thought he himself may take will be taken also by other employers. Nor even if all employers came together is it certain that they could agree to a given policy for reducing unemployment, or enforce it on recalcitrant members. It is far from proven that insurance by industry in whatever form it might be attempted will provide a sufficiently strong pecuniary inducement to make it certain

that employers will do all they can to prevent even that small part of unemployment which they can eliminate. The prevention of unemployment, as indeed of industrial accidents, can be and should be attempted in a more direct manner rather than by the roundabout influence of lower insurance rates.¹

Fourthly, it may be questioned whether the industry is the unit in this matter. The individual manufacturer has been known to lessen his labour turnover, to work for stock, to train his workmen for alternative employment in his own works, to regularize the demand for his output and in consequence his own demand for labour, and even to pay his workmen full or part-time wages when they were unemployed. It is questionable whether the whole of an industry could, if it would, achieve much along these lines.

It is true that the unemployment problem takes on different forms in different industries and the evil needs its specific remedy in every case. Amongst the dockers, the problem is one of casual, intermittent employment; in the gas-making and building trades it is one of seasonal unemployment; in the wool textile industry it is a problem of under-employment rather than of unemployment. In one case we may have the phenomena of a dying industry, in another the paralysing effects of a policy of "non-co-operation." It is doubtless true that some of these problems can be slightly influenced by those responsible for the industries affected, but that a very small money influence will achieve this object is extremely doubtful. If employers of labour will not take the trouble to eliminate waste which amounts annually to hundreds of millions, it is not likely that the saving to them of a few million, assuming that this can be effected, will induce them to tackle this problem.² It is otherwise with a few individual employers. They may be induced to pay more attention to achieving a better organization in their plant. In Wisconsin, therefore, Professor John

¹ In the case of industrial accidents this influence can be made quite patent, but not, it is contended, in the case of unemployment.

² Mr. John A. Hobson states that "the general body of evidence has impressed this conviction upon me very strongly, and I believe that, with the art of organization and the technical knowledge which is now possessed in the different trades, we ought to turn out wealth at something like twice the rate we were turning it out in 1914, without additional pressure."

R. Commons has proposed a Bill which endeavours to induce the individual employer to reduce his labour turnover.¹

As to the costs of administration of unemployment insurance, it seems certain that these will be greater for ten or twenty schemes than for a centralized scheme. We have seen that a duplication of employment exchange offices in the same town is certain to result if the new proposal is adopted. We have noted, also, that the State system would still have to continue. Moreover, the Government would have to supervise trade schemes, to sanction them and then supervise their finances. The total costs for the administration of the new system would, it seems, be substantially greater than that involved in the present system.

As to the security of the Fund and the certainty of receiving payment, that depends largely on the reserves held, and whether the Government would come to their rescue if industrial schemes failed. But it is clear that there cannot be greater certainty of the unemployed workman receiving benefits under the proposed scheme than under the present scheme. Nor could payments be made more promptly than they are to-day.

Therefore, applying our four tests to unemployment insurance by industry, we conclude that the effect on reducing unemployment would be insignificant, that the administrative costs are likely to be considerably greater and that the security of the Fund and the promptness of payment will not be excelled.

INDIRECT EFFECTS OF INSURANCE BY INDUSTRY

The usual indirect good effects are claimed for this proposal, as were claimed for the Whitley Councils. We are warned, e.g., that "the just principle of democracy has been applied to politics. It is in the long run impossible to apply a different principle to industry," and the joint control of unemployment insurance by industry, we are told, is democratic. The sharing of control by employer and worker is of educational value. Far too long, all are agreed, have the employer and men been cut off from personal contact. Besides, there is a fund of knowledge amongst the workers which would assist in the solution of the problem. The answer to all this is that the employment exchange and

¹ This is discussed in Appendix II.

unemployment insurance should be controlled, even more than they are to-day, by elected representatives of employers' associations and trade unions. There is no need for a revolutionary new scheme to achieve these objects. Departmental responsibility must be modified in such a manner as will give those most directly affected more control over the appointment of officials, and even in questions of policy.

Our examination leads us to the conclusion that insurance by industry would be a very troublesome and costly method, involving very many difficulties at the outset, that it has no direct advantages over the State scheme, and that the indirect benefits, which are not very great, can be achieved by a slight amendment of the existing scheme. The Unemployment Insurance Act of 1920, slightly amended, should be tried for a decade before any fundamental revision is attempted.

CHAPTER V

UNEMPLOYMENT INSURANCE AS PART OF SOCIAL INSURANCE

DISCUSSIONS of the future of unemployment insurance generally suggest parallel questions relating to the future of health insurance and of other forms of social insurance. The desire for simplification and economy has inspired the proposal that all the important emergencies which occur in the life of the workman's family should be provided for in one comprehensive scheme. Views respecting the future of unemployment insurance will be greatly influenced by conclusions bearing on the possibility and desirability of such a scheme, and it is therefore necessary to inquire into a few of the main aspects of this question.

To-day, in Great Britain as well as in other industrialized countries, all or some of the following emergencies in the life of a workman's family are provided for by the State, employers, or the workman himself, through some device of social insurance: unemployment, industrial accidents and diseases, sickness, maternity, invalidity, old age pensions, burial, provision for widows and orphans.

THE DEMAND FOR A UNIFIED SCHEME

These devices, however, are not treated as parts of a coherent scheme,¹ and in consequence there is an unnecessarily large number of types of organization dealing with them.

¹ The National Committee of the French General Confederation of Labour in 1921 included among its immediate demands "the creation of a general system of social insurance covering all risks incurred by wage-earners—accidents, sickness, unemployment invalidity, and old age—provided that the workers' organizations are allowed to share in the management of this system."

Our social insurance measures have grown up piecemeal, without any plan or clear underlying idea, and their unification is now demanding attention. This question is frequently arising, in one form or another, before Government Committees of Inquiry. Thus the Departmental Committee on Workmen's Compensation 1919, 1920, inquired into the possibility of uniting workmen's compensation with health insurance. To-day an Interdepartmental Committee is sitting on the question of unifying in part health insurance with unemployment insurance. The trade unions are demanding the merging of invalidity insurance with old age pensions, whilst constant criticism arising from the Parmoor Report on Industrial Insurance 1920 suggests that it should form part of a National Scheme of Social Insurance. It is noteworthy that none of these Committees can deal adequately with the question that directly concerns them, because it is really part of a larger problem with which they are not dealing.

What are the difficulties to be met when an attempt is made to merge the administration of two measures of insurance for meeting hazards in the workman's life?

The grounds for unifying under one administrative machine all cases of illness, whether due to industrial accidents, industrial disease, or sickness not immediately traceable to industry, are that administrative expenses would be reduced, procedure simplified, litigation reduced, and the workman given indisputable rights in all cases of illness.

The difficulties in achieving this object would be enormous. It would necessitate throwing both schemes into the melting-pot. At present the workman and the State contribute directly towards the costs of health insurance, but workmen's compensation insurance is paid for by the employer. The former is administered as a rule by approved societies such as friendly societies and trade unions, i.e. very largely by workmen's organizations; the latter, as a rule, by proprietary insurance companies. Health insurance contributions are on a flat rate for workmen in all occupations, but variation in the rate of premiums for workmen's compensation, although not common, exists, and is growing in extent.

If it were decided that workmen's compensation was in future to be provided on the same basis as health insurance, it is certain that employers would not consent to pay towards

the funds of these workmen's societies without wanting to exercise some control over them. Nor would such a change take place without great opposition from the very powerful insurance company interests. On the other hand, employers would raise solid objection to placing the total costs of health insurance on their shoulders. Workers' organizations, on the other hand, would resist any proposal for placing this combined organization into the hands of private insurance companies.

Let us note what is involved in the merging of health with unemployment insurance, a proposal frequently advocated.

The Geddes Committee has suggested that economies might be effected if health and unemployment insurance were administered in closer co-operation. Practically all the 12 million people insured against unemployment are provided for also under the Health Insurance Act. It is pointed out that if only the accounts, the issue of cards, the supervision of stamps, and the completion of the 12 million individual records for both schemes could be amalgamated, there would be considerable saving.

It is obvious that the administration of both schemes cannot be entrusted to the approved societies, because they cannot provide an adequate test of unemployment, although the recent development of a few specially approved societies, recognized for purposes of unemployment insurance, is regarded in some quarters as proof to the contrary. Nor will the approved societies agree to the employment exchange taking away their work from them under the health insurance scheme. Here, again, it will be more difficult to unite existing schemes than to start an entirely new scheme much broader in its scope. The difficulty of merging existing schemes points to the necessity for a complete reorganization on a new basis, which will, of course, deal equitably with existing interests supervising these matters.

THE CHAOS OF ADMINISTRATION

It is commonly forgotten that social insurance measures are to-day administered by a variety of organizations. Workmen's compensation is administered by proprietary insurance companies, mutual insurance companies, and self-insurers; old age pensions by the Post Office¹; health and maternity insurance by approved societies, which

¹ Working with the Customs and Excise Department

may be trade unions, friendly societies, establishment associations, and the Post Office; unemployment insurance by employment exchanges, trade unions, and other approved societies; industrial insurance or burial insurance is still organized to a large extent by proprietary insurance companies, by collecting societies as well as by friendly societies; invalidity insurance or disablement benefit is provided as part of the scheme of Health Insurance and is administered by the same bodies, at such a low rate, 7s. 6d. per week, that some of those receiving it are not saved from having recourse to the Poor Law; no provision at all is made for pensions for widows and orphans, unless indeed we include the relief from the Poor Law authorities under this head.

The workman and his family are thus obliged to have dealings with a miscellaneous group of organizations. They are in consequence frequently ignorant of their rights and find it difficult to make their claims in a proper manner. In the case of claims for workmen's compensation and for burial insurance advantage is sometimes taken of the workman's ignorance to deprive him of his rights. It is therefore a matter of considerable consequence for the working classes to have all these social emergencies provided for in one scheme so that they should have only one body with which to deal.¹

AMOUNTS SPENT ON SOCIAL INSURANCE MEASURES

Owing in part to the fact that some schemes of social insurance are Government measures, whilst others are

■ This desire to unify their schemes of insurance is one of the main arguments used in favour of insurance on an industrial basis. Thus the National Joint Council of the Labour Party and Trade Union Congress write :—

“ Given, however, an adequate measure of State assistance, certain industries might be able to provide very considerable extension of benefits, not merely by way of larger unemployment benefits in the narrow sense, but by extending the scope of the insurance in such a way as to include provision for invalidity or for the period that may elapse between a man's ceasing to be able to work and his qualifying for an old age pension. The possibility of extending and consolidating their insurances is a prospect which makes insurance by industry attractive to the better organized industries, and that is a strong part of the case for insurance on an industrial basis ” (*Unemployment Insurance by Industry*, p. 10). But if this desire to have ■ unified scheme could be satisfied by some other

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organized on a basis of private enterprise, there is little appreciation of the huge sums spent in providing insurance for the workman against the main emergencies of his life.

ESTIMATED AMOUNTS SPENT IN 1922

Old Age Pensions	£22,500,000
Health Insurance	29,000,000
Unemployment Insurance	60,000,000
Workmen's Compensation	12,000,000
Burial (Industrial) Insurance	35,000,000 ¹
	<hr/>
	£158,500,000 ²

These rough estimates show that over 150 million pounds were spent last year in the various branches of social insurance. About 41 per cent. of this amount was contributed by the employees themselves, about 33 per cent. by the State, and about 27 per cent. by the employers. Nor have we reached the maximum sum that is likely to be spent on these provisions. They are still in the experimental stage and their extension seems certain.

EXTENSION OF SOCIAL INSURANCE MEASURES DEMANDED

The Report of the Departmental Committee on Old Age Pensions (Cmd. 410 of 1919) points out that if pensions were paid to those whose incomes are below the income tax limit (instead of the present system which militates against thrift

means than by that of organizing insurance by industry, then it is presumably likely to prove at least equally attractive.

¹ It is stated that there are over 50 million of industrial policies now in force, and the number of such policies is still growing rapidly. It will be recalled that the first draft of the National Insurance Act provided for the inclusion of burial benefits, but owing to the pressure of the insurance companies, with their sixty thousand agents reaching almost every working-class home, this provision was dropped.

² In the Estimates for 1914-15 national expenditure was reckoned at 210 million pounds, and many were of opinion that the limit of tolerable taxation had been almost reached, and that retrenchment in expenditure would soon become inevitable. It is now proposed that about twice this sum shall be spent on social insurance measures alone. Even when the change in prices is taken into account, the steadily growing expenditure on social insurance remains a highly significant feature in Great Britain, and, indeed, in all industrial societies.

by giving those who have yearly means of £49 17s. 6d. no pension at all), the cost involved would be £38,000,000 per annum.¹ If pensions of 10s. a week were paid to all persons from sixty years of age, as is advocated by the Trade Union Congress, these costs would be doubled. If they were payable to all who reached the age of sixty, irrespective of whether they paid income tax or not, the costs would be £106,000,000.

There is constant criticism of the inadequacy of benefits provided under the Health and Unemployment Insurance Acts. The Chief Government Whip of the last Parliament, Mr. McCurdy, proposes that money benefits should be raised to £2 a week in the case of illness and accidents, i.e. to nearly three times their present amount, and to 30s. a week in the case of unemployment. There is an active body agitating for a very considerable extension of maternity insurance. If Workmen's Compensation Acts were drafted with the object of transferring *all* the money costs of industrial accidents and diseases to the employer, then the amount would sum up to about 32 million pounds per annum, instead of the 12 million pounds of to-day.² It is suggested that non-occupational accidents ought also to be provided against by means of an extension of social insurance. There is a growing body of opinion in this country in favour of granting widows' and orphans' pensions, so that the mothers will be enabled to spend their time nursing instead of working themselves and farming the children out, or of placing them in institutions.³ With the growth in the National Dividend and with the growth of that part of it which goes to the working classes, it is safe to forecast that considerable sums will be expended on the extension of social insurance measures. The proposals now being pressed

¹ Under the Blind Persons Act, 1920, pensions are payable to blind persons on attaining the age of 50. Blindness should be regarded as an emergency to be covered under a comprehensive scheme of social insurance.

² In Switzerland employers pay the costs for insurance against industrial or occupational accidents. In the case of non-occupational accidents the costs are shared by the employees and the State, the former bearing three-fourths of the premiums for insurance and the latter one quarter.

³ A series of articles by the author discusses the two proposals, increased Maternity benefits and Pensions for Widows in *Time and Tide* (see issues Jan. 26, Feb. 2, 9, 16, 23, and March 2, 1923).

forward involve expenditure in normal years of about £500,000,000.¹

In view of the chaos in administration and the proposals to merge and extend schemes of social insurance, special interest attaches to the recently proposed unified scheme.

MR. McCURDY'S SCHEME OF SOCIAL INSURANCE.²

The Rt. Hon. C. A. McCurdy, K.C., M.P., supported by Mr. T. T. Broad, has outlined a comprehensive scheme of social insurance. It is to include health insurance, covering sick pay and medical benefits, unemployment insurance, workmen's compensation insurance, old age pensions from sixty-five, and pensions to widows and orphans. The rates of benefits are to be higher than is common to-day, and the reduction of the age limit for old age pensions, and the new provision of pensions for widows and orphans, are the most notable changes proposed in our existing scheme of social insurance. Two notable omissions from the list of benefits are industrial insurance, better known as burial insurance, and adequate maternity benefits.³

The scheme provides for weekly contributions from employers and employed, no additional burden being placed on the State. Employers are to continue their contributions in respect of health and unemployment insurance and are to provide the whole of the costs of insurance against workmen's compensation; but their contribution is to be

¹ A very rough estimate of the costs of recently proposed measures of social insurance may be attempted:—

	£
*Old Age Pensions to all at 60 at £1 per Week	212,000,000
Health Insurance (including Maternity and Invalidity)	90,000,000
Unemployment Insurance	60,000,000
Workmen's Compensation	60,000,000
*Pensions for Mothers and Orphans	50,000,000
Burial Insurance (as to-day)	35,000,000

£507,000,000

*(Based on Government Estimates.)

² We are interested in this proposal not as part of a suggested pact for the avoidance of industrial disputes, nor because of its relation to the economy campaign. Our interest is in the economic effects of a comprehensive scheme of social insurance in the place of the present piecemeal schemes.

³ The French Bill of National Insurance includes burial "benefits."

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based not upon the number of insured employees but upon the amount of output. It is to be high when the output is high and low when the output is low.¹ Workmen are to pay 2s. per week in respect of all the insurances provided under the scheme.

The State would at the outset make its contribution as hitherto, but it is hoped that ultimately the State contribution could be wholly withdrawn.

BENEFITS IN ALL INDUSTRIES

The rate of benefits is to be greatly increased. They are to be as follows:—

HEALTH INSURANCE.

<i>Sick Pay</i> : For men	40s. per week.
For women	25s. „ „
Medical benefits as now.	

UNEMPLOYMENT INSURANCE.

For men	30s. per week.
For women	20s. „ „

WORKMEN'S COMPENSATION.

Temporary disability: For men	40s. per week. ²
For women	25s. „ „
Permanent disability: For men	40s. „ „
For women	25s. „ „

OLD AGE PENSIONS (from 65 years).

For men	40s. „ „
For women	25s. „ „

Pensions for widows	20s. „ „
„ „ orphans	7s. 6d. per week.

¹ This would perhaps afford a slight inducement to employees to increase their output, since the employer would then make a greater contribution to the scheme.

² It is interesting to note the argument used that because benefits are low in the case of one emergency they should be low also for other emergencies. Thus, the *Insurance Magazine*, October, 1922: "Relatively to the rates of sickness and disablement (i.e. invalidity) benefit, the rates of workmen's compensation, as proposed by the Government, cannot be deemed inadequate. Indeed, were they accepted, there would follow an immediate agitation to increase the Health Insurance benefits. To that every insurance expert would without exception demur." This is an additional reason for dealing with all branches of social insurance in one scheme.

ADMINISTRATION

No indication is given of the administrative aspects of this proposal. How are the different schemes of insurance now in operation to be unified? Is a new Department of State, a Department of Social Insurance, to be set up? Can the employment exchanges be used for the purpose of paying benefits to all types of applicants for benefits? Is it possible or desirable for each industry to have a comprehensive system of social insurance for all those engaged in it? What part will trade unions, friendly societies, and insurance companies play in the new administrative machinery? How is the tax on the output of each industry to be levied? Perhaps when an attempt is made to answer these questions it will be found that the following views of the sponsor of the scheme will need some modification. "The essential feature of such a scheme of Trade Insurance as I am suggesting is not an extension of the present system of State Insurance, but a new system altogether, which would leave employers and employees to perform for themselves the duties now performed by the State." It should, however, be noted that whatever its ultimate intention may be the State actually contributes to its cost and will presumably administer it.

These outlines of a scheme have been worked out with particular reference to the mining and to the boot and shoe industries.

A SCHEME FOR THE COAL-MINING INDUSTRY

At present the employers are paying in respect of the miners, it is said, a sum equivalent to 9*d.* per ton of coal raised. It is proposed to increase this to 1*s.* per ton, and the men are to provide an inclusive contribution of 2*s.* per week.¹ On this basis the employers' portion would amount to 13 million pounds per annum, the workers' contribution at 2*s.* per week to nearly 6½ millions, and the State contribution to just over 1½ millions, the total available for distribution as benefits for miners and their dependants being 21 millions per annum.

The plan as applied to 1,200,000 work-people in the mining industry would be somewhat as follows:—

¹ It is assumed here that the scheme is actuarially sound.

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	£
2s. a week from 1,200,000 workers	6,240,000
1s. a ton on 260,000,000 tons	13,000,000
Existing State contributions from unemployment, health, old age pensions, etc.	1,760,000
Total annual Income	£21,000,000 ¹

A SCHEME FOR THE BOOT AND SHOE INDUSTRY

In the case of 30,000 work-people in the boot and shoe industry the following figures are stated to represent how the scheme would work:—

ESTIMATE OF INCOME

	£ per annum
1s. 3d. per week from 20,000 women operatives . .	65,000
2s. " " " 100,000 men "	520,000
An average of 3d. per pair on 100 million pairs of boots	1,250,000
Existing State contributions from unemployment, health, old age pensions, etc.	200,000
	£2,035,000

BENEFITS AND PENSIONS FOR BOOT AND SHOE OPERATIVES

Estimate of Expenditure in 1923 and in 1940.²

	No. of Beneficiaries.	Benefits per Week.	Cost in 1923.	Cost 1940
HEALTH INSURANCE.				
Sick Pay :				
Men	1,500	40s.	156,000	188,500
Women	500	25s.	32,500	
Medical benefits as now			75,000	75,000
UNEMPLOYMENT INSURANCE.				
Men	1,500	30s.	117,000	143,000
Women	500	20s.	26,000	
WORKMEN'S COMPENSATION.				
Temporary disability :				
Men	150	40s.	15,600	18,850
Women	50	25s.	3,250	
Permanent disability :				
Men	150	40s.	15,600	18,850
Women	50	25s.	3,250	

¹ The rate of benefit would be as stated on p. 84.

² Cost of administration should be added to these totals.

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	No. of Beneficiaries.	Benefits per Week.	Cost in 1923.	Cost 1940
OLD AGE PENSIONS (from 65 years).				
Men	5,000 ¹	40s.	520,000	897,000
	8,000 ²			
Women	500 ¹	25s.	32,500	
	1,000 ²			
PENSIONS FOR WIDOWS.				
	500 ¹	20s.	26,000	260,000
	5,000 ²			
Orphans to 16 years :				
	2,000 ²			
	10,000 ²	7s. 6d.	38,000	190,000
Total ³			<u>£1,060,700</u>	<u>£1,801,200</u>

If these estimates are actuarially sound, then the total income of £2,035,000 per annum would be ample to pay health and accident and old age pension benefits at the rate of 40s. per week in the case of men and 25s. for women. It would provide also unemployment benefits of 35s. per week in the case of men and 20s. per week in the case of women.

It should be realized that both these trades have a comparatively small amount of unemployment calling for insurance because periods of depression are met as a rule by the short-time method. Doubtless the scheme as applied to other trades with a high rate of unemployment, say the shipbuilding and engineering trades, would not appear so attractive. It should be noted also that these two trades lend themselves more easily to a scheme of the kind suggested because of the nature of the unit of output: a pair of boots or a ton of coal can be easily ascertained. But what would be the unit of output in the printing trade, in the building trade, or amongst shopkeepers' assistants? In these latter trades it would be well-nigh impossible, and in any case most costly, to levy the employer's contribution on his output. Nor must the cost of checking accounts submitted by employers of labour and the costs of collection be forgotten.

It should be clearly noted also that there is no question of applying this scheme to meet the conditions now prevailing in consequence of the present depression. Its authors look

¹ 1923.

² 1940.

■ Cost of administration should be added to these totals.

forward to a period when trade will be normal before attempting to apply it.

ARGUMENTS FOR AND AGAINST

Mr. McCurdy's proposal involves three main conclusions with respect to existing schemes of social insurance. It is based on an appreciation of the desirability of unifying the present legislation on the subject. It is as absurd and wasteful to treat these branches of social insurance as autonomous and independent subjects by different Departments of State as it would be to treat elementary, secondary, and university education as entirely independent of each other. The need for giving the workers a sense of security against destitution and protection against the main hazards in their life is as essential in a modern society as it is to give every one an old age pension or an elementary education. All these different branches of social insurance should be parts of a comprehensive scheme.

Secondly, it recognizes the necessity for extending the emergencies in the life of the workman's family which should be met by the device of insurance. Thirdly, and above all, it shows a readiness to increase the rate of benefits very considerably, thus showing that it is believed that the period of experimentation has been passed, and insurance, up to a very considerable part of the loss suffered, may be attempted.

The proposal to collect the employer's share in proportion to his output is likely to prove very costly. The amount which workmen are to contribute towards the costs of the scheme are much greater than they pay to-day, and would be resisted, whilst it is clear that they would still need to insure against other emergencies in private insurance companies or in workers' societies. No indication is given of the administrative machinery to be set up to cover this "all in" social insurance policy. Above all, no attempt is made to associate the scheme with any proposal for the reduction of the hazards in the workman's life.¹

¹ Whatever may be thought of Mr. McCurdy's scheme as a scheme of social insurance, all students will acknowledge the value of laying down a concrete proposal for discussion and for focussing thought on the questions unsolved. Mr. William E. Peters in an article in the *Insurance Mail* of October 21, 1922, on "McCurdyism," gives a characteristic view of the grounds of opposition of insurance company officials to this proposal.

ADMINISTRATIVE PROBLEMS

We have observed that Mr. McCurdy avoids all discussion of the administrative aspects of social insurance.¹ And yet it is safe to assert that unless their administration is sound the best-developed schemes will fail. The recent inquiries into the workings of workmen's compensation and of burial insurance show the difficulty of continuing the present policy of State supervision of social insurance schemes administered by private insurance companies. The question again presents itself what policy shall be adopted. The alternatives are, on the one hand, a much more detailed supervision and control of these organizations with a limited amount allowed them for profits and administrative expenses, and, on the other hand, Government control and administration.

Where a Government lays down that workmen must be insured against certain risks, it cannot allow private organizations to make excessive profits in carrying out those functions. Nor can it permit a form of organization with high administrative expenses. It feels called upon to lay down a limit of profits and administrative charges that may be permitted² and when it is found that greater benefits can be paid from given contributions than is actually paid, it insists on a revision of benefits. It is evident that such constant detailed interference with the affairs of private organizations is objectionable. It will discourage the introduction of economies, since it is not to the administrator's interest to effect them. It will restrict the incentive of private profit and awaken no impulse to public service in its place.

We cannot therefore avoid a discussion of the thorny

¹ Excepting that he points out that he desires to institute social insurance by industry. Our examination of the difficulties involved and the objections to unemployment insurance by industry suggests that this is the weakest part of the proposed scheme. Fortunately, the proposal to merge existing schemes of social insurance may be examined independently of the consideration whether they are to be supplanted by a State scheme or by a scheme of administration by industries.

² The Holman Gregory Departmental Committee on Workmen's Compensation suggested 30 per cent. as the maximum of administrative expenses and profits to be allowed to insurance companies for administering workmen's compensation.

question whether the scheme of social insurance should be administered by a State monopolistic fund,¹ or whether it should be administered as now in part by State funds and in part by private companies and other non-governmental bodies. And yet very much depends on a satisfactory answer to the question whether or not social insurance covering an annual cost of some 150 million pounds, and which may increase, shall be a State monopoly.

Much of the discussion on this subject has proven fruitless. Charges and counter-charges, which are not substantiated, even vitiate the atmosphere in which the discussion takes place. What is really needed is an examination of the facts, in this case happily easy to obtain for many countries, and certain objective tests by means of which they can be interpreted.

Five tests may be applied to schemes of branches of social insurance. These are:—

- (1) What effect do they have on reducing the emergency?
- (2) What are the administrative costs?
- (3) Are the funds from which workmen are to obtain benefits secure?
- (4) How promptly are payments made?
- (5) If the scheme is contributory, what happens in the case of lapsed policies?

An answer to these questions should be based on the results of investigation into social insurance in all industrial countries and not in one or two countries alone. Moreover, it is clear that attention should be paid to the *policy* pursued in the different countries. Thus, whilst in America proprietary companies providing insurance against industrial accidents have pursued a policy which encouraged "safety first" devices, in Great Britain they have failed to do so. In this respect British companies are much more like the American State funds. Before safe conclusions can be drawn time might be given to proprietary insurance companies in this country to adopt the wisest policies so that we can compare their results with those achieved by State funds pursuing the same policies.²

¹ Another possible organisation for insurance against certain risks, is that of a State fund in competition with private insurance companies.

² It would seem ■ if in Great Britain, with its comprehensive

Let us confine ourselves here to a small field only, viz. to the experience of Great Britain with different branches of social insurance, and apply our five tests to insurance carried on by the State and by insurance companies. Any conclusions arrived at in this manner will therefore be tentative.

REDUCING THE EMERGENCY

Neither the Government nor insurance companies have paid very much thought to the prevention of the undesirable emergencies covered by the various branches of social insurance. Insurance companies responsible for the administration of workmen's compensation have done practically nothing to advance the work of "safety first" in this country. They have not encouraged the use of safety devices, nor have they advertised lower rates of contribution for establishments which adopted means for reducing accidents. In this matter the companies have fallen far behind the example of companies in the United States of America. Similarly, little has been done by the Government to prevent unemployment in this country. But here it cannot be charged that other countries have discovered means for so doing.

ADMINISTRATIVE COSTS

A detailed statement of the administrative expense of existing schemes of social insurance is given in Appendix III. Here it will suffice to compare the administrative expenses of schemes of insurance organized by the Government and of schemes organized by proprietary insurance companies. Old age pensions and unemployment insurance are administered almost entirely by governmental agencies. The administrative expenses of the former are 3·1 per cent. and of the latter 8·8 per cent. The insurance companies providing burial benefits and benefits under the Workmen's Compensation Acts have administrative expenses, including profits, of 44 per cent. and 50 per cent. respectively. Health insurance, which is administered under Government super-schemes of social insurance, albeit not related with one another, there is much less thought and discussion of the problems and difficulties which have to be met than, say, in the United States and in Germany, where much less is spent on social insurance measures.

vision by approved societies consisting of trade unions, friendly societies, and private insurance companies, has an administrative expense of 14.2 per cent.¹

Thus from the point of view of cheapness of administration it seems conclusive that State organization of insurance is to be preferred to private-company insurance.

SECURITY OF FUNDS

Security of funds involves two conditions: first, that the insurance fund is safe, and second that the workman can be certain to have his just claims satisfied. By this test insurance companies in Great Britain can claim to be as safe almost as the Treasury itself. The policy of conservative investment of funds, of keeping huge reserves, the Act of 1870 with its combination of "freedom with publicity," the honesty and soundness of administration, the study of actuarial science, all have been factors in guaranteeing the solvency of the insurance companies. Only rarely will an insurance company find itself in such financial difficulties that it cannot meet the legitimate claims to benefit.² Government insurance funds are also secure since their actuarial soundness can rarely be questioned, and the Treasury guarantees their ability to meet obligations.

PROMPTNESS IN PAYMENT

Although delays in the payment of old age pensions may occur where a birth certificate cannot be found³ and, in exceptional cases, unemployment benefits may be held back, the governmental agencies are normally prompt in paying claims to benefit. On the other hand, proprietary insurance companies are very frequently charged with delays in meeting claims in cases of industrial accident and of death. Only too frequently expensive litigation results.

¹ See Appendix III.

■ Where, however, employers do not insure against possible liabilities, say in the case of Workmen's Compensation, then frequently workmen obtain little or no compensation in cases of industrial accidents.

■ Claimants for old age pensions are now advised to put in their claims some months before they become due, so that all the preliminaries can be got through in time and delay in payments avoided.

Another fact which tells against insurance companies results from the desire of insurance company agents to make a good settlement for their company. Insured persons will be induced frequently to take a smaller sum than they have a right to, and either through ignorance or inability to press their claims will agree to an unfavourable settlement. This abuse has been attacked by the directors of insurance companies themselves. It is clear that Government officials have no occasion for adopting such a policy.

LAPSED POLICIES

Where contributions are voluntary, transference of policies from one company to another and the stopping of payments are likely to be common. In the latter case, whilst the insured have a right of a refund, few know that it exists, and even fewer know how to enforce it. In the past huge sums have accumulated in the insurance funds from this source, which have accrued to the companies.

If, however, there were a State monopoly of insurance and contributions remained, as now, voluntary, then lapsed policies would not lead to the present abuse. Those who stopped payment would obtain a return of a fair share of the contributions paid in, and unclaimed sums would go to enhance benefits. Whilst dealing with those who fall into arrears under the health insurance scheme constitutes a difficult problem, they are treated fairly in this Government measure.

PROVISIONAL CONCLUSIONS

Conclusions drawn from the experience of Great Britain alone are inadequate. But they will suffice provisionally. Neither private companies nor the Government have yet paid much attention to reducing undesirable emergencies. Government funds have a considerably lower administrative expense than private companies. There is little to choose with respect to security of funds, but the Government is prompter in payment of benefits and there is no temptation to give lower benefits than the claimant has a right to obtain. The abuse of lapsed policies may be urged against the administration of proprietary insurance companies.

In the discussion of social insurance most attention has

been paid hitherto to the question of administrative expenses, and although they are not as heavy in governmental schemes, even when they are contributory, as those administered by private insurance companies, they are strongly criticised. Thus Mr. and Mrs. Webb, writing with special reference to the health and unemployment insurance schemes, point out: "Regarded as a method of raising revenue, compulsory insurance of all the wage-earning population, with its elaborate paraphernalia of weekly deductions, its array of cards and stamps, its gigantic membership catalogue, its inevitable machinery of identification and protection against fraud, involving not only a vast and perpetual trouble to every employer, but also the appointment of an extraordinarily extensive civil service staff, is, compared with all our other taxes, almost ludicrously costly and cumbersome to all concerned."¹

On the other hand, we have observed how cheap it is to administer a non-contributory scheme of old age pensions. This consideration leads to the question whether the whole system of social insurance cannot be developed on this basis.

PROFESSOR PIGOU'S DICTUM EXAMINED

It will therefore prove profitable here to examine Prof. Pigou's dictum that, "a powerful plea can be built up for making insurance, like education, free."² As a proposal it may be formulated as follows: In the same way as the Government freely awards pensions to aged persons fulfilling certain specified conditions, out of the national exchequer without exacting separately earmarked contributions from workmen or employers, so also it should provide a system of benefits in the case of all the emergencies covered in our definition of social insurance.

Let us note some of the arguments that may be urged in support of and against this proposal.

■ *The Prevention of Destitution*, p. 170.

■ Note however the condition laid down that "when a risk is greater in some occupations than in others, free insurance should only be extended to the minimum risk that is common to all occupations. This conclusion is applicable to unemployment, occupational accidents, and occupational diseases." *Economics of Welfare*, p. 910.

ARGUMENTS IN ITS FAVOUR

What can be urged in favour of this proposal? Its chief aim is to lessen the inequalities in expenditure over a given time by the working classes as a whole and by individual members of that class. Its effect would be to enable them to have a more even expenditure as between good and bad times and thus to increase their own, and, in consequence, national welfare.

At present the costs of social insurance, in the wide sense we have used the term, is borne in part by the State, in part by the employer, and in part by workmen. Free social insurance provided by the State would transfer the burden from employers and workers as such to the body of taxpayers. One of its main effects would be to lessen substantially the burden of supporting workers' families that have suffered some hazard, now frequently carried by fellow-workers.

But the great attractiveness of this proposal results from the simple and cheap administration that could give it effect. Workmen would deal with one agency in all matters of social insurance instead of, as now, with a number. They would soon learn their rights and how to make them effective, and thus litigation would be substantially reduced. Employers of labour would be relieved to be sure that their work-people would be properly cared for during their illness, say, or during unemployment.

When it is recalled that the Poor Law system in effect makes provision for the destitute and that none are allowed to starve who will enter the workhouse, free social insurance is seen to be a device neither profoundly different from nor subversive of the principles which have been commonly acted upon in this country. But whilst the former did not operate until the workman was actually unable to take care of himself and his family, the latter, by giving the workman benefits when he needs them most, i.e. during emergencies, prevents him from falling into the destitute class.

But the case for a non-contributory system of social insurance is stronger if viewed not for a short period, but over a long period in which the change from the present situation to another has time to work itself out. Economists are agreed that from a long-period point of view it

matters little who actually pays for social insurance, whether employers or work-people, or how the costs are divided. Thus Professor Pigou writes :—

“Whether the funds required to meet compensation or insurance claims are collected from the employers in proportion to the wages they pay, or whether work-people pay a part and employers another part, is, from a long-period point of view, a matter of small importance, just as it is a matter of small importance whether local rates are collected from landlords or from tenants.”¹ To-day when a tax is levied on an industry enjoying monopolistic conditions the full burden of the tax falls on the employer. If it is subject to competitive conditions it falls on the consumer. If, however, the costs of insurance came from the National Exchequer, then it would be collected in the same way as all the other costs of Government, and subjected to the same principles. Why, indeed, it might be asked, should the principles of taxation be needlessly infringed merely because funds are being raised for the purposes of social insurance? Why not adhere to the canons of convenience, certainty, economy, and ability when raising these taxes? Factory inspection and baby clinics are provided out of public funds. Why not provide in a similar manner for illness and orphans’ pensions? The statesman should discover first what expenditure needs to be met from the Treasury, and then he should raise the question, entirely independent of that, how it is best to raise the money.

ARGUMENTS FOR AND AGAINST A NON-CONTRIBUTORY SCHEME

It may be argued that, since the merging of two branches of insurance is a difficult matter to achieve, it will prove impossible to establish a comprehensive unified scheme. It may be contended also that it will have a demoralizing effect on those who obtain free insurance, that it may lessen the motive to work, that it will discourage saving, that workmen will never be certain of their benefits if they have no legal right of property in it. We have already discussed in Chapter IV the view that it will differentiate in favour of work-people in unhealthy trades or in trades with a high percentage of unemployment.

¹ *Wealth and Welfare*, p. 276.

Let us examine these contentions briefly.

The merging of two existing schemes has proved difficult because no attempt has been made to put them both in the melting-pot with a view to the development of an entirely new scheme. The part amalgamation of two schemes based on different principles is, of course, an impossible task. But it is a comparatively simple matter to organize the whole system of social insurance on an entirely new principle. If the people of any State definitely desired, for example, to adopt a non-contributory system of social insurance, then the lesser interests would have to yield. It is a common experience in the history of politics for a great reform to prove easier of fulfilment than a small one.¹

It was frequently said when old age pensions were first passed, and then, a few years later, when the National Insurance Act became operative, that this type of legislation would result in the demoralization of the working classes.

No reliable observer of events in the Great Britain of the last decade and a half will be found to contend that social insurance has undermined the independence and self-reliance of the working class, whose standard of living it protects, to any extent, nor that it makes them look to the State, rather than to their own organized efforts, for an improvement in their lot. The growth of trade unionism in numbers and power, the steady rise in importance of the Labour Party, such developments as workshop committees and Guilds, not to mention the constant increase in the size and undertakings of the co-operative movement, effectively prove that the contrary is true.

Provided that an adequate test of the *bona fides* of the claimant for benefit can be developed, and that benefits are somewhat lower than the normal wage, then there is, on the basis of past experience, little justification for the view that it will have a lowering effect on the morale of the workers.

Would a non-contributory system of social insurance lessen the motive to work? It is arguable that, with large numbers of the working classes who can earn little more

¹ One recalls the words of a Chancellor of the Exchequer who declared that he would find it easier to raise 20 million pounds than £200,000.

than the indispensable minimum for health, the provision of non-contributory social insurance would give many the added inducement to work for those little pleasures which are now denied to them. Moreover, if a sense of security should be induced the devices for increasing output which are now sometimes fought might have better chance of adoption and the national income be thereby increased. Improvements in machinery, scientific management, payment by results, dilution of labour might under satisfactory conditions be welcomed by the labourers. And even apart from the general policy adopted by the trade unions the individual workman would be less likely to ca-canny.

Would the proposed scheme discourage saving and thus adversely affect the national dividend? ¹ It should be noted that some of the saving is of a nature which is hardly desirable. Persuasion of the very poor to insure against burial expenses results frequently in "lapsed policies," and the few coppers a week are coming, it is frequently argued, from families that should rather spend them on milk for the baby.² The harmful effect on the national dividend, although real, will not be very serious.

It is extraordinary that many working-class representatives should feel that "the worker's position is strengthened by the fact that through the payment of his contributions he obtains a legal right of property in his benefit during periods of unemployment, and that therefore he is less likely to be deprived of benefit on trifling pretexts." The only observation necessary on this argument is that a statutory right to benefit is as a rule as effective as any right arising from the fact that contributions have been paid in respect of it. The State is less likely to withdraw benefits on grounds of bankruptcy or on any other grounds than is a private insurance company or Friendly Society or trade union. On the other hand recent experience respecting uncovenanted benefit shows that during periods of stress an unsympathetic Parliament might modify the conditions of benefit. Even more important is the consideration that the wrong principle may be adopted of giving benefits only to those who need them. This vicious principle, embodied

¹ See *Economics of Welfare*, p. 757.

² Millions of working-class families are to-day paying in respect of their insurances from 3s. to 5s. a week.

in Poor Law outdoor relief, and in the Old Age Pensions Act, is a direct encouragement of those who don't save or make provision for themselves through trade unions and friendly societies. Free insurance to all, or to all below a certain average income, has much to commend it, but free insurance to those only who are in need would be extremely objectionable.

We conclude that free insurance would not have the demoralizing effects frequently alleged to be the inevitable result of this type of parliamentary enactment.

But the question may be raised, Is it a fact, when you come to work out your scheme of social insurance in detail, that it will be as simple as is suggested, and that its administrative costs will be low? When tests of the *bona fides* of workmen are developed, the test of willingness to work when unemployed, the test of sickness, the test of a workman's capacity to return to work after an accident, will not an elaborate machinery for these purposes have to be developed? Moreover, will it not be desirable that benefits shall be limited in duration? Will not conditions apply to the receipt of every form of benefit? In short, is not the simplicity implied wholly or at least partly an illusion?

Again, is it really desirable to abolish the contributions from employers and workmen with respect to social insurance? The costs of collection of these contributions is not really to-day very heavy, and will not the substituted tax—for the money will still have to be found—also involve costs of collection? Is it desirable to abolish a productive tax without any clear alternative proposal for raising the money? In practice it may be found very difficult to shift these burdens on to the shoulders of the wealthy, and it is a doubtful expedient to add to the indirect taxation on the poor. Besides, there is a good deal to be said in favour of workmen and employers paying these taxes directly, because it gives them a clearer notion of, and therefore interest in, what the Government is doing with the money raised for this specific purpose.

Another valid criticism of the proposal arises from the fact that if benefits are not related to contributions, the politician, the vote-catcher, will be tempted to make the most extravagant promises and raise the most dangerous hopes of increasing benefits which cannot be fulfilled.

Thus even to-day politicians talk far more lightly of multiplying expenditure on the non-contributory old age pensions than, say, on the contributory health insurance.¹ But all practical proposals of this kind will raise difficulties and questions. That is not necessarily sufficient reason why they should not be adopted. The case for and against them must be balanced against the case for and against the existing system or other suggested alternatives to it.

This proposal of a non-contributory system of social insurance can be given physical embodiment in various ways. Let us examine the skeleton of one possible scheme.

THE SOCIAL INSURANCE DEPARTMENT OF STATE

One large Department of State might be organized whose function it would be to institute schemes and devices for reducing the hazards in the life of the workman's family and for insuring against those hazards.

The preventive side would be parallel in importance with the insurance side of the work. The hazards to be covered would be industrial accidents and industrial diseases, illness, maternity, invalidity, old age, burial, provision for widows and orphans, unemployment. This Department would establish the appropriate central and local organizations. A social insurance office would be required in every village of the country. Probably the present employment exchanges could be adapted for the purpose. The workman would deal with this one agency. This agency would apply the appropriate tests to discover whether the claim was *bona fide*. But for every one of the provided hazards the workman would deal with this agency only. All work-people, together with their families, with an income below, say, £400 a year, would be covered by the scheme.

Both Local Advisory Committees and Central Advisory Committees consisting of representatives of employers' organizations and of trade unions should be formed to help in the administration of the scheme.

The Treasury would provide for the costs of social insurance as it does for education. But a strong case can be

¹ A number of Members of Parliament are already pledged in favour of old age pensions at £1 a week to all who reach the age of 60. It is estimated that this would cost over 200 million pounds, as against the present expenditure of £22,000,000.

made out for levying an additional tax on those industries in which the emergencies of unemployment and industrial accidents are higher than is the average of all industries.

Enough perhaps has been said and suggested to indicate that further inquiries along this line would be helpful. Let us enumerate some of the questions on which guidance is needed.

Can one Department of State administer all forms of social insurance?

What is the most satisfactory machinery that can be devised for this purpose?

What would be the best means of placating the different interests affected (insurance companies, trade unions, Friendly Societies, etc.)?

What would be the costs of a comprehensive scheme of social insurance?

The formulation of the outlines of this scheme will, it is hoped, aid in preventing the growth of opportunistic arrangements in the various social insurance measures which already encumber the field too much. The suggestion on which it is based is helpful also as showing one direction which the movement for social insurance may take.

The recent series of Departmental Committee Reports on measures of social insurance, the constant changes of Acts of Parliaments, the adoption of new regulations, and now the advocacy of various schemes for unifying the law and the administration dealing with these matters, are clear indications of the need for a completely revised code of social insurance. There is widespread discontent with the law as it is to-day.

Appendix I

UNEMPLOYMENT INSURANCE ABROAD

Existing systems of unemployment insurance are administered through four different types of organization : (1) through trade unions ; (2) through associations recognized and subsidized by public bodies ; (3) through establishment funds ; and (4) through national compulsory schemes.

(1) In practically all industrialized countries the better paid workmen provide for out-of-work benefits through their trade unions. This form of insurance is most common in the United Kingdom and least common in the United States. In no country, however, do more than a small percentage of workers make this provision.

(2) In order to encourage the extension of this activity the Ghent system of unemployment insurance was instituted in Belgium some thirty years ago.¹ In countries adopting this system a subsidy is granted from public funds, central or local, to associations making provision of this kind. In Belgium the State gives a subsidy of 50 per cent. of the amount paid in contributions by members to their societies in respect of involuntary unemployment, which is granted to all societies affiliated to a local unemployment fund. In December, 1921, there were in existence 2,317 unemployment insurance funds, with a membership of 756,000, recognized by the State, and receiving subsidies from the State or local authorities. In 1913 there were only thirty-four societies, with 126,278 members.

Owing to the wide-spread depression of 1921-22, a National Crisis Fund was instituted by the Government, for the provision of benefits to members of unemployment insurance funds who had exhausted their claims to benefit. The rate of benefits is as follows :—4 francs a day for the head of a family, plus 1 franc a day for the wife, if not habitually employed, and each child, up to a maximum of 10 francs per day per family.

¹ In all countries where the "Ghent System" is adopted unemployment insurance is generally organized by industries.

Involuntary unemployment is interpreted to include unemployment due to strikes and lockouts in which the workmen have endeavoured to employ all possible means of settlement by conciliation and arbitration, but have been opposed by their employers.

Legislation is now proposed in Belgium with the object of compulsorily enrolling in a complementary organization all workmen not insured in trade unions. Employers would be compelled also to contribute towards a reserve fund to be used in times of gravity.

Denmark has a somewhat similar scheme to that existing in Belgium. On March 31, 1920, there were sixty-five approved unemployment insurance societies, with a total membership of 313,000. General conditions are imposed by the public authorities, but each society calculates its own risks, administers the scheme, and works out its own rules. On January 1, 1922, a central unemployment fund was formed, to which employers are obliged to contribute, and to which the State and the insurance societies subscribe. Authorized societies who have exhausted their resources are aided from this fund.

Norway has adopted a similar system of subsidies to insured persons, with slight modifications of detail. The Government subsidies are calculated at the rate of 50 per cent. of the benefits paid for a maximum period of ninety days' unemployment per annum. The subsidies were raised, during the 1921-22 depression, to 66 per cent. of the benefits paid. In 1916 there were 41,000 insured members, and in 1920 116,000.

The Ghent system of State subsidies to associations of workmen providing unemployment insurance benefits is found also in Finland, Spain, France, Germany, Czecho-Slovakia, and the Netherlands. In January, 1922, the number of insured persons in the Netherlands was 377,000.

(3) In a number of countries individual employers are to be found who, out of a sense of responsibility to their workmen or the State, or because of an appreciation of the advantages of keeping their workmen attached to them, provide or encourage establishment unemployment insurance funds. Such funds exist in Great Britain, the United States, Germany, Switzerland, and France. The number of work-people who are thus insured is, however, almost insignificant.

(4) The most important method of organizing unemployment insurance is that known as Compulsory Insurance, or the British system. Some four or five times as many workers are covered by this scheme in the United Kingdom as are provided for in all the countries using the Ghent scheme combined. Italy and Austria have adopted a somewhat similar scheme, whilst Switzer-

land and Luxemburg have, in their temporary measures, followed its general lines. Other countries considering its adoption are Belgium, Germany, the Netherlands, Queensland, Brazil, Chile, and the Argentine Republic.

The Italian Act covers agricultural workers¹ as well as manual workers, but it excludes domestic servants and home workers. Unemployment in seasonal industries is also excluded unless an additional contribution is paid. The cost of the scheme is borne equally by the employer and the worker, the State contributing only to a reserve fund. Owing to the fact that the Act was not passed until October 19, 1919, the funds available have become exhausted, and it has been necessary to limit benefits. On January 1, 1922, there were 542,000 totally unemployed persons, of whom 72,000 were in receipt of benefit under the compulsory insurance scheme, 44,000 were provided for by a system of temporary relief, and 426,000 were without any benefit or relief whatever.

The Austrian compulsory system of unemployment insurance came into operation on May 9, 1920. The State provides one-third of the costs involved.

The Swiss system of unemployment benefit was established by the Order of October 29, 1919, and is intended to be provisional in character. It provides that the costs shall be divided equally between the employers, the Cantons, and the Confederation. In practice, as will be seen from the following figures, the public authorities contribute more than their share. During 1921 the total amount of benefit paid to the unemployed was 81,518,000 francs, of which 67,586,000 francs was provided by the Confederation and the Cantons, and only 13,932,000 by the employers. The workers bear no part of the cost of the scheme.

In Luxemburg, by an Act of August 6, 1921, the State, the local authorities, the workers, and the employers share the costs of the insurance system there established.

Bills on unemployment insurance are under consideration in Poland, Sweden, Switzerland, South Africa, Canada, and Japan, and in all these countries very considerable interest is shown in the compulsory system.²

The International Labour Conference adopted, at its session

¹ Apart from Italy and the subsidies to trade union funds of agricultural workers in Denmark and the Netherlands, very little insurance against unemployment has been organized in this the most ancient and the greatest industry in the world, although it still employs more than half of the world's wage-earners.

² In Germany, Belgium, Switzerland, Luxemburg, the State of Wisconsin, the State of Queensland, and Canada, studies of compulsory insurance against unemployment are actually being made.

at Genoa, a Draft Convention concerning the insurance of seamen against unemployment, and the payment of unemployment benefit to shipwrecked seamen.¹ The recommendations concerning unemployment which were passed by the Washington Conference of the International Labour Office are acting as a potent influence, more especially in the South American States, in securing the adoption of proper measures for dealing with the problem.

¹ It is desired to make "an exhaustive study of the conditions in which it will be possible to ensure to seafarers navigating under a foreign flag, or whose unemployment arises in a foreign port, or who are in any way outside the scheme of the national legislation, an effective system of unemployment insurance, that is to say, a study of the possibility of the internationalization of this form of insurance and of the adjustments necessary for that purpose."—*International Labour Conference, 2nd Session*, p. 535.

Appendix II

PROFESSOR COMMONS' "UNEMPLOYMENT PREVENTION SCHEME" ¹

Social legislation in the United States is still in its infancy, in part, because the wage-earning classes do not suffer the distress common in European countries. But in spite of its standard of living being substantially higher than that of any people in Europe, there is a growing demand for protection from the hazards of industrial life, from accidents, ill health, unemployment, etc., so that these have become questions of practical politics. Indeed with respect to the branch of social insurance for dealing with the problem of widowhood and orphanhood, the United States has made greater progress than Great Britain or Germany. It may be cited as the leading country which has adopted legislation granting mothers' pensions. The surprising rapidity of the growth of legislation providing for satisfactory schemes of workmen's compensation and mothers' pensions demonstrates that proposals for social insurance are receiving very considerable attention in that country. But the schemes actually adopted and contemplated are naturally native to the needs and circumstances of the States for which they are intended. In the case of unemployment insurance it is found that in addition to the usual opposition of employers to submit to the costs and the accompanying regulations, there are special difficulties arising from the conditions more particularly characteristic of the United States. Let us note them briefly.

The trade unions have very little experience in administering out-of-work benefits, the Cigar Makers' Union being the best known of the very few unions which have attempted this activity. There is no adequate system of employment exchanges. It is widely assumed that there is a fundamental objection to governmental compulsory schemes in the United States. War experi-

¹ The Bill based on this scheme was introduced into the Wisconsin Legislature by Senator Huber, and is officially referred to as Substitute Amendment No. 1 S. to Bill No. 122 S., May 3, 1921.

ence and the social insurance legislation already adopted proves this to be a wrong estimate of American psychology, but one cannot deny the influence of this false judgment. Moreover, grave constitutional difficulties are likely to arise if an attempt is made to experiment with a limited number of trades, as was done in the first instance in England. This would probably be annulled by the Courts as "class" legislation.

Let us note also the administrative difficulties. First, there is the existence of a large though dwindling body of aliens,¹ and considerable opposition is raised against their enjoyment of beneficial legislation to the costs of which employers or the State contribute. A more serious consideration arises from the presence of a large migratory element, people who move from State to State with the seasons. Each one of the States forming the United States of America has its own laws, and a workman migrating to a State that had no unemployment insurance would lose his accrued right to benefits. There would be consequently a tendency to restrict the mobility of labour. Another difficulty arises from the fact that workers will more readily change their trades or open small shops than they do in countries where classes are more sharply defined and chances of rising into another class are not so numerous.

A very real difficulty in the administration of labour legislation in the United States is the absence of a body of skilled and experienced civil servants. The political appointment is far too common, the salaries are too low, and the withholding of appropriations for existing institutions too frequent, for able and honest men to take up the civil service as a profession. This necessarily results in a very inexperienced and ill-assorted body of officials being employed in the administration of such social legislation as is passed.

A further difficulty is the result of the existence of forty-eight different legislatures each with the power to pass or prevent such legislation. If a social measure is propounded in one State it is generally asserted that its costs will place the citizens of that State at a disadvantage as compared with those in neighbouring States who do not adopt such legislation. To meet this charge efforts are now being made to press for the adoption of such proposals in groups of neighbouring States, or where employers are in competition with one another, e.g. the New England group of States.

In the light of these considerations it will become evident that Professor Commons' scheme is a highly ingenious and well-

¹ Even the British Government has taken up the illiberal attitude of differentiating against aliens in the extended benefits given under the unemployment insurance scheme.

thought-out plan for avoiding the special difficulties in the way of unemployment insurance legislation in the United States. A scheme on the lines of the British plan would have to face all the difficulties enumerated, but his Unemployment Compensation and Prevention Bill " is a very skilfully devised measure for overcoming them.

With an eye to Wisconsin conditions Professor Commons has based his proposal on two ideas which were already familiar to employers. Workmen's compensation for accidents has long been in existence and employers accept the principle on which it is based. Employers in the United States have also been made to realize within recent years the great cost of needless " hiring and firing " of workmen. The inefficiency resulting from a heavy labour turnover has been widely discussed. The Unemployment Compensation and Prevention Bill, both in its name ¹ and its clauses, unites these two ideas and provides that industry must compensate workmen temporarily unemployed. Employers are to be held liable in proportion to their skill in stabilizing employment and in reducing labour turnover.

By framing the scheme on the plan of the Workmen's Compensation Act both employers and the Courts will, it is anticipated, take to it more readily.

SUMMARY OF THE SCHEME

A Bill "relating to the prevention of unemployment by compensating working men while temporarily unemployed, providing insurance, and providing penalties," is made to apply to employees, including aliens, over sixteen years of age, whose income does not exceed \$1,500 per annum, and who are not employed by farmers or canneries, or as civil servants.

When unemployed an insured workman may draw benefits provided that—

- (1) he has been in employment for twenty-six weeks;
- (2) he is capable and available for work, but is unable to obtain suitable employment.

He is not required to accept work where there is a strike or lockout ; or where the wage offered is less than that prevailing in the district and trade.

Liability for unemployment compensation falls on the last employer of an unemployed person.

Payments are to be regulated as follows :—

No more than six weeks of unemployment compensation shall be paid to unemployed workmen in any year during the first

¹ Critics of Professor Commons' scheme will assert that his choice of name is based on Professor Coué's theories of auto-suggestion.

three years, nor more than thirteen weeks in any subsequent year. Not more than one week's unemployment compensation shall be paid for every four weeks the unemployed person has been employed.

Unemployment compensation will not be paid to persons who are unemployed because—

- (a) they voluntarily left work without reasonable cause;
- (b) they were dismissed for a reasonable cause;
- (c) of a strike or lockout.

The rate of unemployment compensation proposed is very low—1 dollar for each work-day, after the waiting period of three days, for men and women over eighteen years, 50 cents for those between sixteen and eighteen.

Costs for transportation to obtain work outside the district may be obtained.

An additional 10 per cent. is to be paid into the State Treasury to cover the State expense in administering the Act.

The employers of the State are to be organized in an "Employers' Mutual Employment Insurance Co."

The premiums payable by employers will vary with the amount of unemployment. A firm which has a relatively high average percentage of unemployment, which is guilty of numerous discharges and engagements of labour, i.e. a firm with a high "labour turnover," will pay a relatively high premium, while one which by foresight, good administration, and "job-planning" avoided "hiring and firing" work-people frequently would be rewarded by a reduction in the rate of insurance. Every large employer of labour would be induced to set up a special personnel department to devote itself to this work. It is proposed that employment exchanges shall test the *bona fides* of applicants for unemployment benefit. The avowed object of the Bill is to encourage foresight, good administration, and "job-planning" by the employer. It would seem to encourage also the device of meeting a period of depression by the method of short time rather than by that of dismissal of workmen.

The main features of the scheme may be summarized as follows :—

- (1) It is adapted to American conditions.
- (2) It directs attention to the importance of preventing unemployment, and the employer is offered an inducement to devise schemes for its reduction in his own plant.
- (3) It throws the costs of unemployment insurance on employers. Where they enjoy monopolies these will constitute a tax which cannot be shifted, and where they do not they will be able to collect it in the form of higher prices from the consumers of their commodities.

(4) The principle of compulsory insurance is effected in a manner most palatable to employers. By organizing an Employers' Mutual Insurance Company to act as the insurance carrier, the State is to a large extent eliminated from the scheme.

CRITICISM OF THE SCHEME

Whilst an attempt is made to treat responsibility for unemployment in a manner identical with that of responsibility for industrial accidents, employers will note and take advantage of a significant difference. Even before Workmen's Compensation Acts were passed employers had a certain amount of responsibility for industrial accidents under Common Law. With the possible withdrawal of the usual employers' defences against lawsuits it became more advantageous to them to accept a certain position under Workmen's Compensation Acts than the uncertain but frequently greater liability under the Common Law. But with respect to unemployment, the employer has no responsibility for providing against the loss involved.

They will note also that under the British scheme employers pay only about one-third of the costs whilst in this they are to pay all the cost. In the long run this perhaps does not matter, but employers are likely to be concerned with its immediate effects. Nor will the seasonal trades, or trades which are of a nature in which it pays economically to dismiss workmen rather than work short time, accept it without a struggle. It is economical to them as employers to dismiss workmen on those occasions. When a new tax is to be placed on an industry of a kind which penalizes employers for organizing their factories in a manner which yesterday was permissible and to-morrow may be found to be economically most desirable, opposition is likely to be very great.

It may be doubted also whether the administration by employers and workmen, as is advocated, will prove to be feasible, although highly desirable. An intermediary may be found to be indispensable.

There is a more fundamental objection to the proposal, which is based on the assumption that the individual employer can, if he will, prevent unemployment. It ignores the causes which are deeper and wider than can be controlled by any individual employer. The great and rhythmic fluctuations of industry, with periods of intense activity and deep depression, are of this nature. Variations in harvests, contagious optimism and contagious pessimism in the minds of business men, these affect all employers and produce business storms which sweep the individual employer off his feet. Nor is he able to control the dislocations resulting from war, from changes in tariffs, and

alterations of fashion, and a number of other major causes which make for unemployment.

The field over which the individual employer has control is in fact extremely limited.¹ Professor Commons asserts that "the three main causes of unemployment are the labour turnover, the seasons, and the credit system." It may be questioned whether "labour turnover" is really so important a cause of unemployment as it is of inefficiency and waste. Indeed in certain aspects a heavy labour turnover is the result rather than the cause of unemployment. Irregularity of orders and inability to foresee future needs makes an employer nervous and "jumpy" and causes him to engage and sack work-people frequently. But the percentage of unemployment in an industry does not bear very close relationship to the amount of labour turnover. Indeed it is possible to have a high percentage of unemployment, in certain trades and factories, with a comparatively low labour turnover, and *vice versa*.

It may, however, be conceded that a scheme on the lines of that advocated by Professor Commons will tend to lower the labour turnover. But it is not likely to affect seasonal unemployment or cyclical unemployment very much.

It may be concluded with respect to this Bill that if in a country where unemployment insurance is not yet in existence the type of scheme which it embodies has a greater chance of passing into the law than any based on the British plan, i.e. where considerations of political expediency and social outlook make it necessary, then this type of scheme has of course certain advantages.

But apart from the fact that it calls attention to the necessity of attempting to reduce the amount of unemployment it has no advantage over the British scheme, to justify its adoption in this country. Its non-contributory feature, which would make it popular with the working class here, is, after all, only one but not its chief feature.

■ *The Economics of Welfare*, Bk. VI.

Appendix III

ADMINISTRATIVE COSTS OF SCHEMES OF SOCIAL INSURANCE

What are the administrative costs of carrying on schemes of social insurance in Great Britain to-day ? ¹

ANALYSIS OF INSURANCE COMPANIES' TRANSACTIONS

From the returns furnished by insurance companies to the Board of Trade in respect of employers' liability insurance in 1920, it appears that the income of the companies from premiums was £8,851,707 in 1920, or, including interest from reserves £9,047,559.

Note the items of expenditure.

Only £2,980,755 went in payments under policies.

£2,921,959 went in payments for commission and expenses of management.

£1,476,869 was transferred to the reserves ; and

£1,667,976 was set aside for profits.

Less than 32 per cent. of the total charge for premiums was paid to workmen or their dependants in that year. Over 50 per cent. was spent on administrative expenses, medical and legal costs of employers and insurance companies, and in profits.

The following table gives an analysis of the transactions of insurance companies for the years 1911-1918, with the items of their expenditure in percentages.

The following table shows the percentage of the various items of total expenditure to the total income (premiums plus interest)

¹ For a comparison between the administrative costs of State monopolistic insurance funds for industrial accidents, competitive State funds, and proprietary insurance companies, see the author's *Workmen's Compensation in Great Britain*, Ch. III.

Year.	Com- mission	Expenses of Man- agement	Payments under Policies and Transfers to Reserves for outstanding Claims and unexpired Risks	Profit and Loss	Transfers to Additional Reserve
1911 .	13.0	19.5	67.9	1.4(loss)	1.0
1912 .	12.8	18.8	60.2	6.3	1.9
1913 .	12.8	18.4	53.7	11.1	4.0
1914 .	12.4	19.6	48.0	18.1	1.0
1915 .	12.4	19.6	46.7	18.5	2.8
1916 .	12.1	18.9	47.0	20.6	1.4
1917 .	11.6	18.3	48.4	21.8	0.1 (decrease)
1918 .	10.4	19.0	47.3	20.1	2.2
8 years	12.1	19.0	51.7	15.2	2.0

Writing in 1910, Messrs. Frankel and Dawson observed that : ¹ "Up to the present time, expenses of management, including litigation and adjustment, have absorbed nearly one-half the premiums. The industries of Great Britain are thus paying in premiums, if adjustments are fair, about twice the net cost, and if not fair, they are paying in expenses—which under the German system of mutual associations of employers supervised by the State have been made unnecessary—many times what would enable all adjustments to be fair and even liberal." Thus, apart from one short interval, within the last two decades insurance companies have had an administrative expense which, including profits, amounted to about 50 per cent.

BURIAL INSURANCE

The Report of the Board of Trade Industrial Life Assurance Committee ² which was issued in March, 1920, states that the expense rate to the premium income for burial insurance was 44 per cent. Putting it in a more simple form this means that out of every shilling paid in premium $5\frac{1}{4}d.$ is spent in expenses and dividends, and $6\frac{3}{4}d.$ distributed as benefit. Almost every household in the country has an insurance policy of this kind,

Workingmen's Insurance in Europe, p. 46.

² Cmd. 618.

whilst in many homes four or more policies are taken.¹ It is not uncommon to have twenty agents, representing perhaps ten or more companies, call on business weekly in the same street, and frequently four agents from different companies, or, stranger still, from the same company, will call on one household. The classic example of waste of five milkmen distributing milk in one street is easily eclipsed by the numbers of insurance agents calling for business.²

OLD AGE PENSIONS

The total amount paid in pensions for the year ending March 31, 1921, was	£ 25,087,000
The cost of administration of Pension Committees was	65,333
And the cost of administration of Post Office, etc.	708,051
	<hr/>
Total costs	£25,860,384

The total administrative costs, £773,384, constituted 3·1 per cent. of the total costs.

HEALTH INSURANCE

The receipts from employers, employed persons, the Exchequer, and from interest on accumulated funds under the National Health Insurance Acts in England for the year 1920 amounted to £29,320,000.

¹ The figures for 1919 of 18 of these industrial concerns and 56 societies carrying on this class of business were as follows. The total income of the companies in respect of burial insurance was £28,000,000, out of which they spent £11,600,000 in salaries, dividends, etc., and paid the policy-holders £9,900,000—the expenses thus exceeding the payments to policy-holders by £1,700,000, and still leaving in the hands of the companies a balance of £6,700,000 as reserves.

■ It is interesting to note the aggregate figures of Fire Insurance in British companies during the three years 1916–18. Approximately 109 millions were paid in premiums and 53 millions were paid to those insured in claims. The portion of the premiums returned to those insured, i.e. 49 per cent., is less than that paid in benefits under Industrial Insurance.

It would be instructive to learn also what is the cost of production and of distribution of a group of commodities supplied in small retail units. It is important to observe that Industrial Insurance is one of the few goods or services in which the entire cost of production and distribution is well known.

The administrative expenses totalled £3,743,000. This sum was made up as follows:—

Expenses of Approved Societies	£	2,646,000
Insurance Committees		437,000
Central Administration		666,000
		<hr/>
		3,743,000
Supplementary ¹ costs by other Departments		435,000
		<hr/>
		£4,178,000

These expenses, it should be noted, include the costs of taking charge of the accumulated funds.

The payments made for Medical and Sanatorium Benefits (including £7,159,000, Remuneration of Medical Practitioners)	£	9,217,000
Sickness, Disablement, and Maternity Benefits		8,353,000
		<hr/>
		£17,570,000

The percentage of administrative expenses to total premiums was 14·2 per cent.

ADMINISTRATIVE EXPENSES IN RESPECT OF AMOUNTS DISBURSED BY THE EMPLOYMENT EXCHANGES IN UNEMPLOYMENT INSURANCE.²

For the year ending March 31, 1922, the approximate cost of administering the Unemployment Insurance Acts at exchanges and elsewhere (including services rendered by other Departments, and payments made to associations administering State benefit) was £6,500,000.

¹ Expenditure in connection with National Health Insurance in England is also incurred by other Government Departments in respect of:—

Office Accommodation (Buildings, Furniture, Fuel, and Light), Rates, Stationery and Printing, Postage, Telegrams, Telephones, National Insurance Audit Departments, and Miscellaneous Services.

The estimated cost of these services in 1920 was £435,000.

² During the ten years of the operation of the scheme, i.e. from July, 1912, to April, 1922, the total amount paid in contributions under the Unemployment Insurance Acts was as follows:—

	£	
From Employers		26,300,000
„ Employed		25,000,000
„ the State		16,200,000
		<hr/>
Total		£67,500,000

The total cost of administering the Acts, together with a number of other services, over the same period, has amounted to £14,000,000.

The total cost referred to covers all work under the Acts, including the collection and recording of contributions, the determination and payment of claims, and the testing of claims by the offer of suitable employment.

During the year ending March 31, 1922, £67,374,000¹ was expended in benefits. The percentage of administrative expenditure to the total outlay on benefits and administration was 8·8 per cent.

It is estimated that the total cost of administration for the year ending March 31, 1923, will be £5,156,450.¹ But as the amount to be expended in benefits is estimated to be smaller, it is hardly likely that the percentage cost of administration will be reduced.

SUMMARY

ADMINISTRATIVE EXPENSES ON SCHEMES OF SOCIAL INSURANCE	per cent.
Workmen's Compensation, administered by proprietary insurance companies	50
Burial (i.e. Industrial), administered by proprietary insurance companies	44
Health Insurance, administered by Approved Societies, i.e. by proprietary insurance companies, Friendly Societies, and trade unions	14·2 ²
Old Age Pensions, administered by the State	3·1
Unemployment Insurance, administered by the State	8·8

It might very well be contended that this mountain of figures has brought forth little new in the form of conclusions, that it is only to be expected that the Government funds, having the advantage of "universal" application, of monopoly conditions, of methods of collection which are comparatively cheap, and being freed from the necessity of making a profit, would necessarily be administered at a less percentage cost than proprietary insurance companies. This *prima facie* view had, however, to be substantiated by an examination of the facts. More important was it, however, to rebut the assertion which

¹ Figures provided by the Ministry of Labour.

■ Sir John Baird stated in the House of Commons on July 12, on behalf of the Government, that out of every 20s. of the total amount received from all sources into the National Health Insurance Fund it is estimated that 12s. 2½d. goes in benefit, 5s. 1½d. to reserve, and 2s. 8d. on administration. The corresponding figures for the Unemployment Fund are 17s. 10d. in benefit and 2s. 2d. in administration (including the cost of dealing with insured work-people at employment exchanges).

is still very commonly made without any evidence in its support, that the administrative costs of Government schemes of social insurance are greater than those of private companies. It must, however, be realized that the comparison so far made is not conclusive, because we have compared the administrative expenses of different branches of social insurance. We have compared unemployment insurance and old age pension administration with workmen's compensation and burial insurance administration.

Let us therefore examine the results in this respect where it is possible to compare proprietary insurance companies administering a given branch of social insurance, and mutual companies of employers, monopolistic State funds, and State funds in competition with the companies. Fortunately, the U.S. Bureau of Labour Statistics undertook an investigation covering twenty-one States and two Canadian provinces which have workmen's compensation legislation, providing that employers shall bear part of the burden of industrial accidents. Such employers can insure in any one of these four types of funds. The conclusions arrived at were that "the average expense ratio of stock companies is approximately $37\frac{1}{2}$ per cent.; of mutual companies, about 20 per cent.; of competitive State funds, about $12\frac{1}{2}$ per cent.; and of exclusive State funds, from 5 to $7\frac{1}{2}$ per cent."

It would be interesting to obtain similar comparisons of administrative expense for other branches of social insurance. Meanwhile, there is a strong presumption in favour of the view that pension schemes, i.e. non-contributory schemes, are administered more cheaply than contributory insurance schemes and that social insurance is more cheaply administered through the State's own offices than through proprietary insurance companies. On the other hand, it may be urged that Government funds are free from taxation and do not include the costs of pensions for civil servants, whilst insurance companies must meet these additional obligations. Also, that in the case of unemployment insurance expenses ought perhaps to have declined more steeply with the large increase in the amounts disbursed.

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